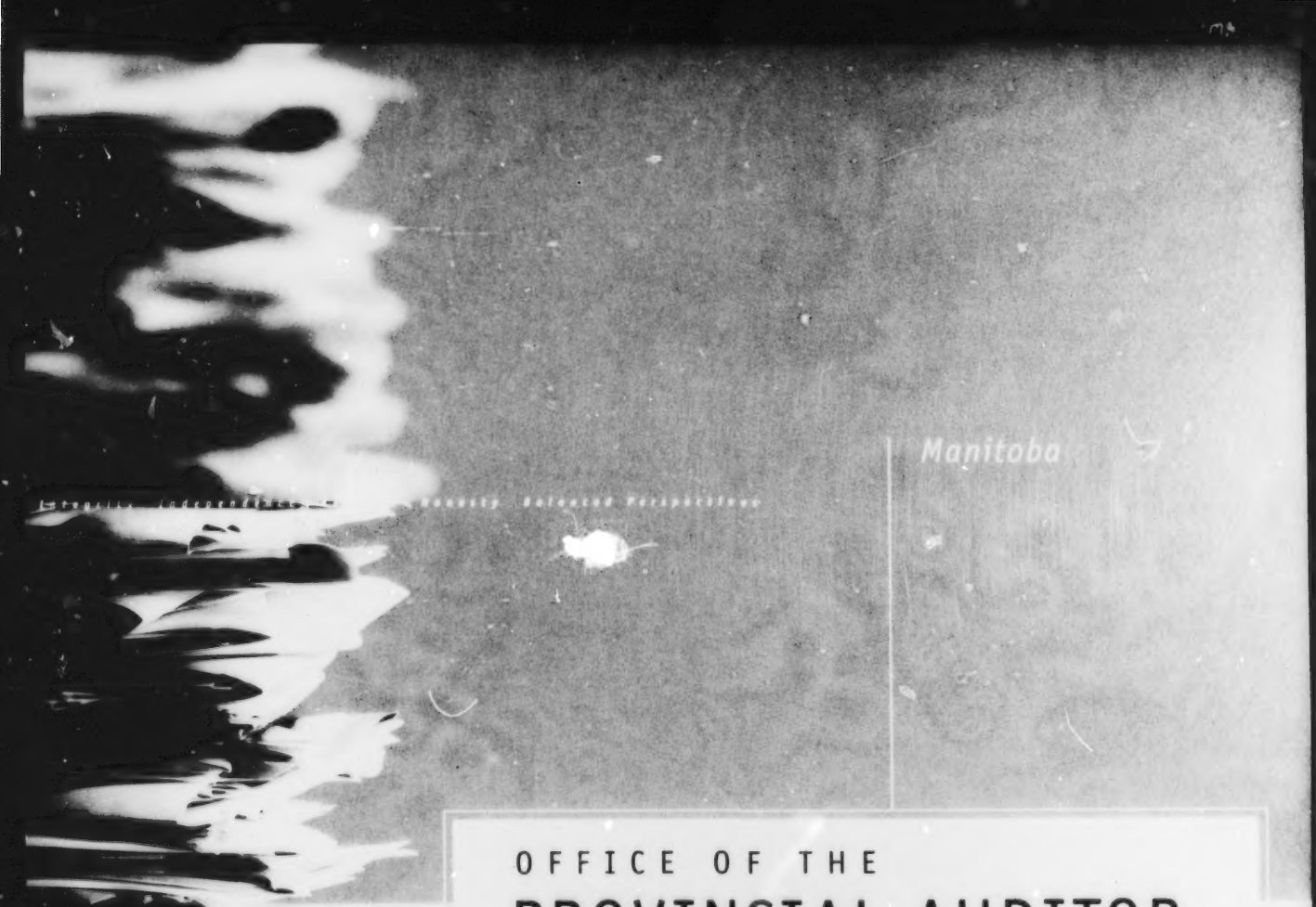

OFFICE OF THE

PROVINCIAL AUDITOR

Audit of the Public Accounts for the year ended March 31, 2001

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Provincial Auditor will contribute to greater public trust and confidence in the institutions of government.

Vision

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Provincial Auditor will contribute to greater public trust and confidence in the institutions of government.

Mission

To contribute to effective governance by the Manitoba Legislature, we provide the Members of the Legislative Assembly with independent assurance and advice on:

- *government accountability information;*
- *compliance with legislative authorities;*
- *and the operational performance of government.*

Values

IN INTERPERSONAL RELATIONSHIPS

Respect ***Honesty***

Integrity ***Openness***

IN ACHIEVING OUR VISION AND MISSION

Teamwork

Independence

Balanced Perspectives

Professional Excellence

Office of the Provincial Auditor
500-330 Portage Avenue
Winnipeg, Manitoba R3C 0C4

January 2002

The Honourable Peter M. Liba
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to submit herewith our report on the Audit of the Public Accounts for the year ended March 31, 2001 to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 13 of The Provincial Auditor's Act.

Respectfully submitted,

Jon W. Singleton, CA•CISA
PROVINCIAL AUDITOR

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REFLECTIONS OF THE PROVINCIAL AUDITOR

102-03395/

As is discussed at greater length within the body of this report, I believe that the government should make the summary budget its primary tool for communicating the planned results of government financial activities to the legislature and the public.

It is a fundamental principle of financial accountability that financial reporting and budgeting should use the same accounting principles. This facilitates the effective comparison of actual results to plans because the reader does not need to worry that different accounting principles have been used.

To its credit, the government made the summary financial statements its primary financial reporting tool for the year ended March 31, 2001. The financial statements of the Operating Fund, included in the new Annual Report, were clearly shown, for the first time, as special purpose financial statements not required to follow generally accepted accounting principles.

However, in the budget documents for the year ended March 31, 2002, the government has continued to use the budget for the Operating Fund as the primary tool for communicating its fiscal plans. The summary budget information has been relegated to a minor position inside the budget documents. This means that the budgeting practices of the government are significantly inconsistent with its financial reporting practices. It cannot help but confuse the members of the legislature and the public when their attention is directed primarily to the Operating Fund budget which is calculated in a manner significantly different from its primary financial report - the Summary Financial Statements. This is a most unsatisfactory situation.

As noted earlier, I commend the government for the significant improvement it has made in its financial reporting practices this year. I encourage the government to take the next step and make its budgeting practices consistent with its financial reporting practices. In so doing, it will be joining a number of other provincial jurisdictions which have already done so.

Jon W. Singleton, CA•CISA

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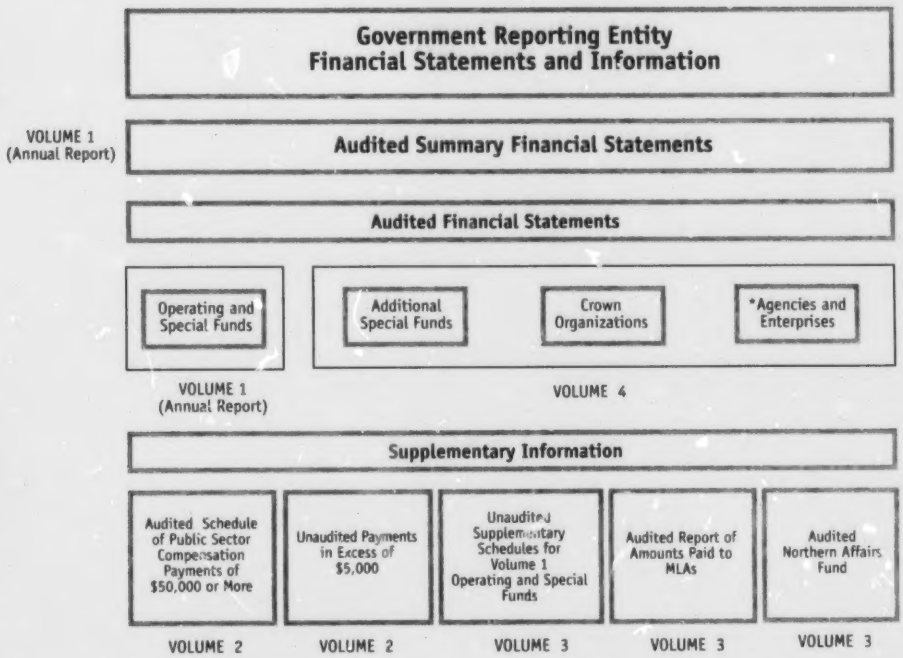
Overview of the Public Accounts

Financial Reporting Structure of Manitoba's Public Accounts



* Detailed Audited Financial Statements of Special Operating Agencies (SOAs) are included in a separate annual report prepared for the Special Operating Agencies Financing Authority (SOAFA)

Financial Reporting Structure

The Public Accounts of Manitoba represent the annual financial statements for the Government of the Province of Manitoba (Government). These financial statements provide an important link in an essential chain of public accountability. They are the principal means by which the Government reports to the Legislative Assembly and to all Manitobans on its stewardship of public funds.

The Public Accounts are prepared in accordance with the Financial Administration Act and contain the financial statements and supporting information required by this legislation. The Public Accounts also include information required by other legislation such as the Balanced Budget, Debt Retirement and Taxpayer Accountability Act and by the Public Sector Compensation Disclosure Act.

Public Accounts are represented by two distinct sets of financial statements that satisfy two unique purposes. The Summary Financial Statements are the **General Purpose** statements of the Government. They provide audited information on the aggregate

financial affairs and resources for which the Government is responsible, including government enterprises and crown organizations. The Summary Financial Statements are prepared in accordance with public sector accounting standards (as issued by the Public Sector Accounting Board [PSAB]) of the Canadian Institute of Chartered Accountants (CICA). These are the appropriate statements to use when comparing the operating results and the financial position of the Government to other provinces and the federal government. The consolidated net income reported in the Summary Financial Statements of the Government for 2000/01 was $431 million.

The other set of financial statements presented for Public Accounts are the Financial Statements of the Operating Fund and Special Funds. They are **Special Purpose** in nature and are intended to serve as the Government's accountability report to the Legislative Assembly only on revenues raised and expenditures made as authorized by the Appropriation Act and other statutory spending authorities. These financial statements are also used to reflect the Government's compliance with the Balanced Budget, Debt Retirement and Taxpayer Accountability Act. For 2000/01 the government achieved a positive balance of $41 million and, therefore, was in compliance with balanced budget legislation. These statements do not incorporate the Government's unfunded pension liabilities or the results of other organizations owned and controlled by the Government.

The Public Accounts for the 2000/01 fiscal year are published in four volumes. The preceding chart illustrates the structure of the Government's financial reporting in the Public Accounts.

Volume 1, *Province of Manitoba Annual Report*, contains the audited General Purpose Summary Financial Statements and the audited Special Purpose Financial Statements of the Operating Fund and Special Funds (Operating Fund). It also contains the Minister of Finance's comments for the year ended March 31, 2001, and information on the Manitoba economy. It further contains discussions on financial indicators and variance explanations for both the Summary Financial Statements and the Financial Statements of the Operating Fund.

Volume 2, *Supplementary Information*, contains details of employee compensation of $50,000 or more, as well as information on other payments from the Operating Fund in excess of $5,000 to corporations, firms, individuals, other governments and government agencies. The information on employee compensation of $50,000 or more is audited as required by the Public Sector Compensation Disclosure Act. The information on other payments from the Operating Fund to corporations, firms, individuals, other governments and government agencies is unaudited.

Volume 3, *Supplementary Schedules and Other Statutory Reporting Requirements*, provides additional information on the Operating Fund of the Government. This financial information is unaudited with the exception of the Report of Amounts Paid to MLAs and the Northern Affairs Fund.

Volume 4, *The Financial Statements of Funds, Organizations, Agencies and Enterprises Comprising the Government Reporting Entity*, contains the individual audited financial statements of the various entities owned or

controlled by the Government which comprise the Government Reporting Entity for the Province of Manitoba, except for the Operating Fund and Special Operating Agencies (SOAs). The audited financial statements of SOAs are included in a separate annual report prepared for the Special Operating Agencies Financing Authority.

Recommendations Implemented by the Government

Over the last four years, we have made a number of recommendations to enhance the clarity of Public Accounts. See Exhibit A for the detailed recommendations. In our March 31, 1999 Report to the Legislative Assembly, the Government made a commitment to adopt our recommendations. Commencing with the year ended March 31, 2000, the Government combined the Summary Financial Statements with the Financial Statements of the Operating Fund in a single volume. We commend the Government for their continuing progress in enhancing the clarity of Public Accounts.

The Government clearly designated the March 31, 2001 Operating Fund and Special Funds Financial Statements as special purpose. This reinforced the Summary Financial Statements as the primary financial statements of the Government. The Financial Statements of the Operating Fund should only be used for purposes intended: to reflect the Government's compliance with the Balanced Budget, Debt Repayment and Taxpayer Accountability Act; and to report on the stewardship of central government operations.

Also for the year ended March 31, 2001, the Government issued Public Accounts as an annual report with commentary by the Minister of Finance regarding the fiscal year. The annual report contained discussions on financial indicators and variance explanations for both the Summary Financial Statements and the Financial Statements of the Operating Fund. This is another step in enhancing the clarity of Public Accounts because the reader is provided with information on key events and on the performance of the Government for the fiscal year.

Summary Budget Presentation

The Government prepared a summary budget based on the budgets for all entities included in the Government Reporting Entity for the year ending March 31, 2002 as their response to our final recommendation. This budget was presented in the 2001 Manitoba Budget. While this is a first step, the budget presented is very brief and is not presented in the same format as the Summary Financial Statements. The Summary Budget should be presented on the same basis as the Summary Financial Statements to enable a reader to directly compare the budget to the Summary Financial Statements.

Canada and five of the other Provinces produce summary budgets that are tabled in Parliament/Legislatures. These summary budgets are prepared on the same basis as the Summary Financial Statements of the governments. Three of these six summary budgets are voted on by the members of the Parliament/Legislatures.

In an attempt to clarify why we continue to encourage the Government to give more prominence to the summary budget, we have created an analogous family budget using

simple numbers and assumptions (Exhibit B.1). The scenario was developed for a family that earns a salary and also has a bookstore business. The family has decided to restrict the use of cash from the bookstore to bookstore costs and manages these through a separate bank account. Cashflow from the family salary is insufficient to pay the rent, so the landlord has agreed to accept promissory notes in lieu of rent payments in cash.

The family salary and other expenses flow through a Chequing Account which has no overdraft privileges. Accordingly, the family uses cash from its Savings Account as needed to keep the Chequing Account from going into an overdraft. In years where there is excess cash in the Chequing Account, the family places it in the Savings Account to help prevent future overdrafts.

In order to manage the funds flowing in and out of the Chequing Account, the family prepares a separate budget for it alone (Exhibit B.2). In addition, it prepares a budget that reflects all its revenues, costs and activities (Exhibit B.3). The Chequing Account budget shows that the family will just break even, but the overall budget shows that the family will increase its financial wealth by $43,000.

Examining the budget the family prepared for its Chequing Account, highlights the potential confusion that others might encounter in attempting to understand the family's financial affairs. Clearly this budget is irrelevant when it comes to assessing whether the family will increase or decrease its wealth during the year or whether its overall revenues and expenses are in balance. The only purpose of the Chequing Account budget is to show how the family is managing its affairs to avoid an overdraft in the Chequing Account. Since cash is flowed out to the Savings Account if available, or back from the Savings Account if there is a shortfall, the Chequing Account budget will always be close to balance (assuming there is enough cash in the Savings Account) rather than reflecting real economic changes in the family's finances.

Only by reviewing the family's summary budget would someone obtain a complete picture of the family's finances. In an analogous manner, we believe that only by examining the summary budget of the Government can the citizens truly understand the Government's management of its financial affairs.

The governments of Canada, British Columbia, Alberta, Ontario, Quebec and New Brunswick have already made the summary budget their primary budget. Manitoba is not aligned with these jurisdictions in this regard.

We recommend that the Government make the Summary Budget its primary tool for explaining its financial plans to the citizens of Manitoba. This would be consistent with the decision recently taken to make the Summary Financial Statements its primary financial reporting tool. In essence, this would mean framing the annual budget documents around the Summary Budget, with the Operating Fund budget being shown in a subsidiary context to demonstrate how the government plans to comply with the Balanced Budget legislation and to highlight those expenditures that will require legislative approval. Similarly, the quarterly reports of the Province, a financial reporting tool, should be modified to reflect actual expenditures on the same basis as the Summary Budget.

COMMENTS OF OFFICIALS

The Government is committed to improvements in transparency and accountability. As evidence of this commitment, the government included the first Summary Budget for the Province of Manitoba with the 2001 budget address. We are pleased that the auditor acknowledges the significant steps taken by the government in this regard.

We will review the Summary Budget format and consider whether or not a different presentation, with more detail, might be more helpful and informative to the reader.

We believe it is important to provide Summary Budget information. However, we also believe that Manitobans hold the Government accountable first for its decisions on tax based operations - and second on the overall operations of government that include the net earnings of government entities and Crown Corporations that are unavailable to support the Province's core operations. Therefore, our first focus will continue to be the budget for the Operating Fund.

Expanding the quarterly reports of the Province to provide summary Budget results would require significant increases in resource commitments without corresponding benefits. Government is not in a position at this time to allocate scarce resources to administrative overhead. Our priority continues to be effective delivery of tax-supported programs and keeping government as affordable as possible.

Exhibit A

RECOMMENDATIONS MADE OVER THE PRIOR FOUR YEARS TO ENHANCE THE CLARITY OF THE PUBLIC ACCOUNTS

- The Government should include both the Summary Financial Statements and the Operating Fund Financial Statements in Volume 1 of the Public Accounts.
- The Government should commit to preparing an annual report on overall government operations that includes high-level summarized financial information, commentary on significant budget fluctuations, and long term graphical trend analysis of government debt, taxation and program levels.
- The Government should adopt the concepts suggested by the Canadian Institute of Chartered Accountants (CICA) 1997 formal publication titled "Indicators of Government Financial Condition" for disclosure of financial indicators in the annual report for government. More specifically, we recommended the Government:
  - use information from the Summary Financial Statements to develop the ratios selected for disclosure; and
  - focus disclosure on only the most significant indicators and make use of graphical presentations to make the report more readable.
- The Government should prepare a summary budget based on the budgets for all entities included in the Government Reporting Entity. The summary budget should be based on the same accounting principles used for the Summary Financial Statements, and summary budget amounts should be disclosed in the Summary Financial Statements for comparative purposes with actual results. The Government should present the summary budget to the Legislative Assembly. This summary budget would include the annual budget for the Operating Fund. When presented, the summary budget could be formatted to show separately those parts of the budget (i.e., the Operating Fund) which require the authority of the Legislative Assembly.

FAMILY BUDGETING - AN ANALOGY TO GOVERNMENT BUDGETING

Exhibit B.1

Assumptions			*Analogous Government Item*
Revenue and expenses:			
Salary		$100,000	Own Source Revenues and Federal Transfers
Rental costs incurred but not paid		12,000	Pension costs
Other expenses		105,000	Costs paid through Operating Fund
Anticipated income of 100% owned bookstore		60,000	Crown corporation profits
	Beginning of Year	**End of Year**	
Assets:			
Chequing Account	$ -	$ -	Operating Fund
Savings Account	10,000	5,000	Fiscal Stabilization Fund
Bookstore	500,000	560,000	
Liabilities:			
Promissory notes due to landlord	-	12,000	Pension liability
Net Assets	$510,000	$553,000	

Exhibit B.2

FAMILY BUDGETING - AN ANALOGY TO GOVERNMENT BUDGETING (CONT'D.)

Budgeting on a Basis Analogous to the Operating Fund

Revenue of the Family Chequing Account	
Salary	$100,000
Expenses of the Family Chequing Account	
Other expenses	105,000
Shortfall before transfer from the Savings Account	(5,000)
Transfer from Savings Account	5,000
Balance	$ -

Exhibit B.3

Budgeting on a Basis Analogous to the Summary Budget

Revenue	
Salary	$100,000
Expenses	
Rental costs incurred but not paid	12,000
Other expenses	105,000
Total expenses	117,000
Net expenses	(17,000)
Anticipated income of the bookstore	60,000
Net income	$ 43,000

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Auditor's Report

The Provincial Auditor's Act requires the Provincial Auditor to provide assurance to the Legislative Assembly on the annual Public Accounts and other accountability documents prepared by the Government. To address this mandate, the office issues high level assurance reports in the format of the standard auditor's report recommended by the Canadian Institute of Chartered Accountants (CICA).

The purpose of the auditor's report is to provide the reader with a high level of assurance on the fairness of financial statements, while clarifying the roles of management and the auditor with respect to these financial statements, and outlining the nature and scope of audit work conducted.

An unqualified auditor's report, where there is no reservation of opinion, contains three standard paragraphs. The introductory paragraph identifies the financial statements that have been audited and reflects management's responsibility for preparing the financial statements as well as the auditor's responsibility for expressing an opinion on the fairness of the balances, transaction totals and overall presentation. The second paragraph describes the nature and extent of the auditor's work and the degree of assurance that the auditor's report provides. It refers to Generally Accepted Auditing Standards (GAAS) and describes some of the important procedures the auditor undertakes. The final paragraph contains the auditor's opinion or conclusion based on the audit conducted.

The Public Sector Accounting Board (PSAB) provides the generally accepted accounting principles for the public sector in Canada. PSAB pronouncements represent the consensus of senior government officials, legislative auditors and other experts in public sector accounting across Canada. They represent minimum standards for governments and are the benchmark for acceptable financial reporting.

The auditor's reports issued by Manitoba's Provincial Auditor as well as by other legislative auditors across Canada reflect the extent to which government financial statements comply with these auditing, accounting and financial reporting standards. In situations where government financial statements do not comply with PSAB standards, legislative auditors consider the need to include a reservation in their opinion. These standards are designed to apply to the Summary Financial Statements of the Government.

In Manitoba, the Summary Financial Statements are presented in the Annual Report, together with my Auditor's Report thereon. For the fifth consecutive year, my Auditor's Report on the Government's Summary Financial Statements was issued without reservation. It should be noted, however, that my audit opinion is not based on Generally Accepted Accounting Principles (GAAP).

The Government's accounting policies are in transition. My office fully supports this transition as well as the presentation and disclosures that have been adopted by the Government for this transitional period. Exceptions to GAAP, are disclosed in Note 1 to the Summary Financial Statements for the fiscal year ended March 31, 2001, as reproduced on pages 25 and 26.

My Auditor's Report on the Summary Financial Statements is included for reference in Exhibit A at the end of this section, along with an excerpt of the Summary Financial Statements for the year ended March 31, 2001 contained in Exhibit B.

Adoption of New Accounting Policies

TANGIBLE CAPITAL ASSETS IN TRANSITION

In the 1999/2000, the Government adopted capital asset and amortization based accounting policies in compliance with the standards of PSAB except for land and infrastruccure. Development of the land was completed in 2000/01. Accounting policies regarding infrastructure such as highways are under development.

BORROWING BY THE PROVINCE ON BEHALF OF NON-DEVOLVED HEALTH CARE FACILITIES

Prior to the 2000/01 fiscal year, individual health care facilities issued long-term debt in their own name to finance major capital acquisitions. In 2000/01, the Province began a program to finance such debt directly, taking advantage of its superior borrowing power and rates, and lowering the cost of health related borrowings for Manitoba. This debt is included as part of the Province's general purpose borrowings. The related asset for non-devolved health care facilities is recorded as a deferred charge and amortized over the same period as the term of the debt issue.

EMPLOYEE FUTURE BENEFITS

In 2000/01, certain health care facilities and the University of Manitoba applied new accounting recommendations for employee future benefits in accordance with PSAB.

AMORTIZATION OF UNREALIZED FOREIGN CURRENCY FLUCTUATIONS, DEBT DISCOUNTS AND DEFERRED INCOME

In 2000/01, the Government changed its methodology of amortizing unrealized foreign currency fluctuations, debt discounts and deferred income. Previously, the methodology was based on number of years and applied inconsistently. This new methodology calculates amortization based on the number of months to maturity from inception to the date of maturity.

Full Adoption of Generally Accepted Accounting Principles

The Government continues to make progress in adopting Generally Accepted Accounting Principles (GAAP) as recommended by the Public Sector Accounting Board (PSAB). However, there are two significant accounting policies that we believe should be changed:

1. The Government records material adjustments resulting from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods as an adjustment to the accumulated deficit. Prior year balances are not restated. PSAB requires changes in accounting policies to be recorded retroactively with prior year balances restated.

2. Tangible capital for infrastructure is not recorded. PSAB requires infrastructure to be recorded.

Early implementation of the recommendations below would bring Manitoba closer to fully adopting generally accepted accounting principles in the Summary Financial Statements. The other exceptions to GAAP detailed earlier in this report relate mainly to the net debt basis of accounting and the standards guiding inclusion of entities in the Government Reporting Entity. PSAB is currently reviewing both of these issues on a national level.

We recommend that the Government change its accounting policies to record changes in accounting policies retroactively and restate prior year balances.

COMMENTS OF OFFICIALS

The Government believes that continuity of results from year to year in our financial statements is more important to citizens than continual restatements going back 10 years or more, in response to accounting standards.. Changes in prior year numbers could also create doubt in the readers' minds as to the reliability of previously audited and reported results.

We recommend that the Government record infrastructure as tangible capital assets as soon as practical.

COMMENTS OF OFFICIALS

As previously agreed with the Provincial Auditor, the Government has withheld its adoption of infrastructure capitalization pending receipt of a research study being conducted by the Canadian Institute of Chartered Accountants on this subject. As at the date of this report, that research study has not yet been released and we continue to be concerned that adopting the standards, without knowing what the recommended changes might be and how those changes might impact on the Province of Manitoba, might not be in the best interest of Manitobans. However, the Government is committed to continuing its review of this accounting standard and will endeavour to implement the appropriate accounting policy at the earliest opportunity.

Exhibit A

Office of the Provincial Auditor
500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

On the Summary Financial Statements for the Government Reporting Entity Province of Manitoba

To the Legislative Assembly of Manitoba

I have audited the consolidated statement of financial position of the Government of the Province of Manitoba as at March 31, 2001 and the consolidated statements of revenue and expense, accumulated deficit and changes in cash flow and temporary investments for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Government, as well as evaluating the overall financial statement presentation.

In my opinion, these Summary Financial Statements for the Government Reporting Entity present fairly, in all material respects, the consolidated financial position of the Government of the Province of Manitoba as at March 31, 2001 and the consolidated results of its operations and changes in its cash flow and temporary investments for the year then ended, in accordance with the accounting policies stated in Note 1 to the financial statements and applied, except as described in Note 4 to these financial statements, on a basis consistent with that of the preceding year.

Winnipeg, Manitoba
September 24, 2001

Jon Singleton, CA•CISA
Provincial Auditor

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2001"

(Schedules associated with these financial statements have not been replicated in this report. To review these Schedules, refer to the annual report noted above.)

Exhibit B

SUMMARY FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2001

SCHEDULE		($ millions) 2001	2000
	ASSETS		
	Cash and temporary investments (Note 2)	1,275	948
1	Amounts receivable	925	802
	Inventories	31	24
2	Loans and advances	558	555
3	Equity in government enterprises (Note 6)	1,415	1,098
4	Other long-term investments	2	2
	Deferred charge for non-devolved health care facilities (Note 1A)	138	-
5	Tangible capital assets (Note 3)	1,799	1,420
	Pension assets (Note 10)	21	-
	Assets of non-devolved health care facilities (Note 1A)	694	1,007
	TOTAL ASSETS	6,858	5,856
	LIABILITIES		
6	Borrowings	20,459	19,878
	Less: Sinking funds (Note 2)	6,247	6,411
	Less: Debt incurred for and repayable by the Manitoba Hydro-Electric Board, Manitoba Lotteries Corporation and Manitoba Telecom Services Inc (Note 14)	5,840	5,592
		8,372	7,875
	Less: Unamortized foreign currency fluctuation	220	215
	Net borrowings	8,152	7,660
7	Accounts payable, accrued charges, provisions and deferrals	1,944	1,666
	Pension liability (Note 10)	3,050	2,906
	Liabilities of non-devolved health care facilities (Note 1A)	623	914
	TOTAL LIABILITIES	13,769	13,146
	ACCUMULATED DEFICIT	6,911	7,290

Information concerning the Government's Guarantees, Financial Commitments, and Contingencies can be found in Notes 7, 8, and 9.

CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE

For the Year Ended March 31, 2001

	($ millions)	
	2001	2000
REVENUE		
Manitoba Collections:		
Retail sales tax	933	918
Fuel taxes	224	218
Levy for health and education	239	225
Mining tax	45	7
Liquor Control Commission	158	156
Manitoba Lotteries Corporation	239	225
Other taxes	376	383
Fees and other revenue	907	902
Income taxes:		
Corporation income tax	444	307
Individual income tax	1,757	1,611
Federal transfers:		
Equalization	1,339	1,271
Canada Health and Social Transfer	545	509
Federal Health Supplement	92	131
Shared cost and other	312	359
TOTAL REVENUE	7,610	7,202
EXPENSES		
Health	2,618	2,354
Education and Training	1,915	1,806
Family Services and Housing	854	819
Community, Economic and Resource Development	942	1,190
Justice and Other Governments	655	639
Debt Servicing (Note 13)	514	479
TOTAL EXPENSES (Schedule 11)	7,496	7,287
NET REVENUE (EXPENSES)	114	(85)
INCREASE IN EQUITY IN GOVERNMENT ENTERPRISES (Schedules 3 and 9)	317	217
CONSOLIDATED NET INCOME (Schedule 9)	431	132

SUMMARY FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF ACCUMULATED DEFICIT

For the Year Ended March 31, 2001

	($ millions)	
	2001	2000
Balance, beginning of year	7,383	8,543
Changes in accounting policy (Note 4)		
Amortization of unrealized foreign exchange fluctuations, debt discount and deferred income	21	-
Tangible capital assets	(21)	(842)
Accrual of future employment benefits	81	-
Restatement of net assets to trust liabilities	26	-
Regional Health Authorities	-	(165)
Inventories	-	(15)
Recognition of newly devolved health care facilities (Note 5)		
Devolution of net equity of non-devolved health care facilities	(24)	-
Restatement to the accounting policies of the Government Reporting Entity	(49)	-
Repurchase of serial debentures (Note 1E)	(4)	(6)
Consolidated net income for the year	(431)	(132)
	6,962	7,383
Equity in non-devolved health care facilities (Note 1C and Note 5)		
Balance, beginning of year	(93)	-
Devolution of non-devolved health care facilities	24	-
Recognition of non-devolved health care facilities	-	(65)
Net income for the year	(2)	(28)
	(71)	(93)
Balance, end of year	6,911	7,290

CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOW AND TEMPORARY INVESTMENTS

For the Year Ended March 31, 2001

	($millions) 2001	2000
Cash and temporary investments provided by (used in)		
Operating activities:		
Consolidated net income for the year	431	132
Changes in non-cash items:		
Amounts receivable	(112)	(82)
Valuation allowance	3	41
Inventories	(1)	(9)
Accounts payable, accrued charges, provisions and deferrals	124	249
Pension liability	144	140
Amortization of foreign currency fluctuation	96	45
Amortization of debt discount	12	11
Amortization of investment discounts and premiums	(14)	(5)
Amortization of tangible capital assets	96	81
	779	583
Changes in equity in government enterprises	(317)	(217)
	462	366
Investing activities:		
Made	(866)	(1,160)
Realized	630	570
Acquisition of tangible capital assets	(186)	(186)
	(422)	(776)
Financing activities:		
Debt issued	2,386	2,828
Debt redeemed	(2,387)	(1,487)
Changes in sinking funds	288	(601)
	287	740
Changes in cash and temporary investments	327	330
Cash and temporary investments, beginning of year	948	618
Cash and temporary investments, end of year	1,275	948

NOTES TO THE SUMMARY FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2001

I. SIGNIFICANT ACCOUNTING POLICIES

A. General Basis of Accounting

The Summary Financial Statements have been prepared in accordance with generally accepted accounting principles for senior governments as recommended by the Canadian Institute of Chartered Accountants (CICA), with the following exceptions:

1) Material adjustments may result from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods. It is the government's practice to reflect the effects of such adjustments in the accumulated deficit. Prior year balances are not restated.

2) The process of establishing the completeness and reasonableness of the estimated historical cost of the tangible capital assets is ongoing. During the year, the government completed the development of an historical cost database for land. Reporting policies are currently being developed and information is being gathered for other expenditures which include infrastructure such as highways, bridges, and land acquired for public use as well as certain works of art and historical treasures.

3) The CICA recommends that when a government reports expenses and tangible capital assets in its financial statements, tangible capital assets should be reported as a component of the accumulated deficit. In addition, the Consolidated Statement of Revenue and Expense should provide a reconciliation of the expense-based surplus or deficit to the change in the accumulated deficit. The government reports tangible capital assets directly on its Consolidated Statement of Financial Position; they are included in total assets in calculating the accumulated deficit. The Consolidated Statement of Revenue and Expense is prepared on the expense basis, but is not returned to the expenditure basis of accounting to provide a reconciliation of the change in the accumulated deficit. Consolidated Net Debt (Schedule 12) provides a reconciliation from the accumulated deficit to net debt.

4) The government has adopted a policy of including the assets, liabilities and equity of health care facilities, which have not devolved their ownership to Regional Health Authorities in its financial statements on a combined basis. However, the annual net income (deficit) is recorded in the Consolidated Statement of Accumulated Deficit instead of the Consolidated Statement of Revenue and Expense. The assets and liabilities are not adjusted on a basis to be consistent with the accounting policies of the government reporting entity.

5) Prior to the 2000/01 fiscal year, individual health care facilities issued long-term debt in their own name to finance major capital acquisitions. In 2000/01, the Province began a program to finance such debt directly, taking advantage of its superior borrowing power and rates, and lowering the cost of health related borrowings for Manitoba. This debt is included as part of the Province's general purpose borrowings. The related asset for non-devolved health care facilities is recorded as a deferred charge and amortized over the same period as the term of the debt issue.

These accounting policies have been developed and are applied in accordance with the provisions of the Financial Administration Act of the Province of Manitoba.

B. The Reporting Entity

Various funds, Crown organizations and government enterprises comprising the government reporting entity are listed in Schedule 8.

The Operating Fund and Special Funds financial statements report amounts recorded as government revenue, expense on government programs, the lending and investment of government funds and the borrowing and repayment of debt.

To be considered a part of the government reporting entity, an organization must be accountable for the administration of its financial affairs and resources to a minister of the government, or directly to the Legislature, and must be owned and/or controlled by the government, as determined by legislative provisions or by a majority holding of voting share capital.

All educational institutions receive most of their financial resources from voted appropriations which are recorded as expenses. Some of these institutions are separately incorporated, not owned or controlled by the government and are required to report separately on their stewardship. Accordingly, they are not consolidated in these financial statements. Those educational institutions that are consolidated in these financial statements are listed in Schedule 8.

C. Basis of Consolidation

Crown organizations are consolidated after adjusting their accounting policies to a basis consistent with the accounting policies of the government reporting entity. Inter-entity accounts and transactions are eliminated upon consolidation, except for retail sales tax and the levy for health and education. Where the fiscal year end dates of Crown organizations are not the same as that of the government reporting entity and their transactions significantly affect the financial statements, their financial results are updated to March 31.

Government enterprises, whose principal activity is carrying on a business, maintain their accounts in accordance with accounting principles which are generally accepted for business enterprises and which are considered appropriate to their individual objectives and circumstances. They derive the majority of their revenue from sources outside the government reporting entity. They are reported in these Summary Financial Statements using the modified equity method of accounting without adjusting their accounting policies to a basis consistent with that of the government reporting entity. The financial results of enterprises are not updated to March 31 where their fiscal year end is not the same as that of the government reporting entity. Inter-entity accounts and transactions with government enterprises are not eliminated, nor are normal operating inter-entity transactions disclosed separately. Supplementary financial information describing the financial position and results of operations of these enterprises is presented in Schedule 3.

All health care facilities are included in the summary financial statements. Certain facilities that were previously owned and operated by health corporations have transferred their ownership and operating control to Regional Health Authorities. These devolved facilities are consolidated on the same basis as Crown organizations. The assets, liabilities and equity of non-devolved health care facilities have not been consolidated herein but are disclosed on a combined basis.

D. Basis of Specific Accounting Policies

Revenue

All revenues are recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Government transfers are recognized as revenue in the period during which the transaction is authorized and any eligibility criteria are met. Entitlements from the Government of Canada are recorded on a cash basis except for accruals of prior year adjustments determined before June 30 each year. Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

Expenses

All expenses incurred for goods or services received are recorded on an accrual basis. Exceptions to this policy involve the acquisition of inventories acquired for the government's use that are reflected as expenses when incurred.

Expenses include provisional amounts recorded in anticipation of future costs which are quantifiable and have been identified as obligations. Government transfers are recognized as expenses in the period during which the transaction is authorized and any eligibility criteria are met.

SUMMARY FINANCIAL STATEMENTS

Gross Accounting Concept

Revenues and expenses are recorded in gross amounts with the following exceptions.

1) The municipal share of individual and corporation income taxes, which is collected through the Government of Canada and remitted by the Province of Manitoba to municipalities in accordance with the Provincial-Municipal Tax Sharing Act, is not recorded as revenue or expense.
2) Refunds of revenue are treated as reductions of current year revenue.
3) Decreases in valuation allowances previously provided are treated as reductions to expense.
4) Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

Liabilities and Assets

1) All borrowings are expressed in Canadian dollars and are shown net of sinking funds, unamortized debt issue costs and debt of the Province of Manitoba held as provincial investments. Foreign borrowings are converted at the exchange rate in effect at March 31 adjusted for any foreign currency contract entered for settlement after the fiscal year end. Discounts or premiums, and commissions incurred at the time of the issue of debt are amortized monthly to debt servicing expense over the term of the debt.

2) The amount of the pension liability is based on actuarial calculations. When actual experience varies from actuarial estimates, the adjustments needed are amortized over the expected average remaining service life of the employee groups.

3) The year end translation adjustments reflecting the foreign currency fluctuation from the value at the issue date are recorded through the unamortized foreign currency fluctuation account, and amortized monthly to debt servicing expense over the remaining term of the debt. The unamortized portion of foreign currency fluctuation reflects the gains or losses on the conversion of foreign currency debt called prior to maturity using the rates in effect at the time of the call.

4) Loans, advances and long-term investments are recorded at cost less valuation allowances. A valuation allowance is provided to reduce the value of the assets to their estimated realizable value or to reflect the impact of significant concessionary terms on outstanding loans. Premiums that may arise from the early repayment of loans or advances are reflected as deferred revenue and are amortized annually to debt servicing expense over the term of the related debt issue.

5) Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward exchange contract fixing the value has been negotiated, in which case that rate or amount is used. The year end investment translation adjustments reflecting the foreign exchange fluctuation between year ends are amortized monthly to debt servicing expense over the remaining life of the investment. Expenses and other transaction charges incurred on the purchase of investments during the year are charged to debt servicing expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

6) Inventories held for resale are recorded at the lower of cost and net realizable value.

7) Tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Buildings	25 to 40 years
Vehicles	5 years
Aircraft and vessels	
- Aircraft frames	24 years
- Aircraft motors	5 years
- Vessels	24 years
Machinery, equipment and furniture	10 years
Road construction and maintenance equipment	15 years
Computer hardware and software	4 to 15 years
Leasehold improvements	Life of lease

SUMMARY FINANCIAL STATEMENTS

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal where the portion of useful life remaining exceeds six months.

8) A tangible capital asset received as a donation is recorded at its fair market value with the same amount being shown as a deferred contribution which is amortized to revenue on the same basis as the asset is amortized. Where the acquisition cost of a tangible capital asset is shared with other jurisdictions under a shared cost agreement, such contributions are deducted from the cost of the related asset with any amortization calculated on the net amount.

9) During the year, the federal government created a Health Equipment and Infrastructure Fund for investment in new medical equipment. The Province's share of this fund was $37 million as at March 31, 2001. Funding from the Health Equipment and Infrastructure Fund has been treated as deferred revenue and will be brought into revenue based on actual purchases of equipment according to a defined schedule.

10) Guarantees of the government are made through specific agreements or legislation to repay promissory notes, bank loans, lines of credit, mortgages and other securities. Provision for losses on guarantees are recorded when it is likely that a loss will occur. The amount of the loss provision represents the government's best estimate of future payments less recoveries.

E. Serial Debentures of School Divisions and Districts

The accumulated deficit of the government reporting entity includes amounts related to serial debentures of school divisions and districts, acquired by the government in prior years. The government is primarily responsible for funding the redemption of these debentures; accordingly these amounts are not reflected as assets. As the funding for annual redemptions flow from the appropriations of the government to the school divisions and districts, and then back to the Province, the accumulated deficit of the government reporting entity is reduced by the amount of such redemptions.

F. Use of Estimates

In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. These estimates have been based on management's best judgements applied to available information.

2. TEMPORARY INVESTMENTS AND SINKING FUNDS

Temporary investments and sinking funds are recorded at the lower of cost and market value. As at March 31, 2001, the cost of cash and temporary investments was $1,275 million with a market value $1,287 million. Sinking funds had a cost of $6,247 million and a market value of $6,711 million at March 31, 2001.

3. TANGIBLE CAPITAL ASSETS

($ millions)

	2001			2000
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land – see note 1.A.2	49	-	49	25
Buildings – brick, mortar and steel	1,650	568	1,082	894
Vehicles	65	34	31	28
Aircraft and vessels	44	23	21	22
Machinery, equipment and furniture	546	392	154	100
Road construction and maintenance equipment	51	35	16	14
Computer hardware and software	290	129	161	157
Assets under construction	279	-	279	174
Leasehold improvements	12	6	6	6
	2,986	1,187	1,799	1,420

4. CHANGES IN ACCOUNTING POLICY

A. Amortization of Unrealized Foreign Currency Fluctuations, Debt Discount and Deferred Income

Effective April 1, 2000, the government made an accounting policy change to the methodology of amortizing unrealized foreign currency fluctuations, debt discount and deferred income. This new methodology allocates amortization based on the number of months to maturity, from the date of inception to the date of maturity. The effect of this accounting policy change resulted in an increase to the accumulated deficit of $21 million, and a similar increase to the outstanding liabilities. The impact of this accounting policy change on the current year is a $19 million increase in expenses.

B. Tangible Capital Assets

Effective April 1, 1999, the government made an accounting policy change to introduce the capitalization of tangible capital assets. Commencing April 1, 2000, the government expanded the scope of the policy change to include land. This resulted in an increase in net tangible capital assets of $19 million and a corresponding decrease in the accumulated deficit of the same amount. During the current year, additional assets valued at $2.0 million were identified and recorded.

C. Employee Future Benefits

Effective April 1, 2000, certain health care facilities and the University of Manitoba applied the new accounting recommendations for employee future benefits. As a result, the government has recorded an $100 million liability, with an $81 million increase in the accumulated deficit. The current year's expenses increased $4 million, and the assets in non-devolved health care facilities increased $15 million.

D. Trust Liabilities

Effective April 1, 2000, as a result of a change in the designation of a special purpose fund held by the University of Manitoba, net assets of the fund in the amount of $26 million were restated as trust liabilities. Accordingly, the accumulated deficit was also increased by $26 million.

5. EQUITY IN HEALTH CARE FACILITIES

The equity of the non-devolved health care facilities has been disclosed as a decrease to the accumulated deficit for March 31, 2001 of $71 million (2000 - $93 million). The change in net equity for the year resulted from the devolution of the Health Sciences Centre and the Urban Shared Services Corporation net assets of $24 million and net income for the year ended March 31, 2001 of $2 million (2000 - $28 million). Net income has not been reflected in the Consolidated Statement of Revenue and Expense.

Effective April 1, 2000, previous non-devolved health care facilities, the Health Sciences Centre and Urban Shared Services Corporation transferred all of their operations to the Winnipeg Regional Health Authority. This addition to the government reporting entity resulted in a decrease to the accumulated deficit of $73 million and an increase in the consolidated net income for the year ended March 31, 2001 of $1 million.

6. EQUITY IN GOVERNMENT ENTERPRISES

The category definitions are as follows:

Utility:
An enterprise which provides public utility services for a fee.

Insurance:
An enterprise which provides insurance coverage services to the public for a fee.

Finance:
Enterprises which provide regulatory control and are revenue generating, or enterprises which use economy of scale to deliver goods and services to non-government clients.

Resource Development:
Enterprises charged with the development of various industries and/or the delivery of various goods and services which will assist the provincial economy.

Included in the equity in government enterprises are equities which are restricted for use by provincial legislation and thereby not available to discharge government liabilities or to finance other government programs.

Equity in government enterprises is comprised of:

	($ millions) 2001	2000
Restricted Equity in Government Enterprises:		
Manitoba Hydro-Electric Board	1,088	818
Manitoba Public Insurance Corporation	227	181
Workers Compensation Board	78	77
	1,393	1,076
Unrestricted Equity in Government Enterprises:		
Leaf Rapids Town Properties Ltd	2	2
Manitoba Hazardous Waste Management Corporation	5	5
Manitoba Lotteries Corporation	5	5
Manitoba Product Stewardship Corporation	7	7
Manitoba Public Insurance Corporation	3	3
	22	22
Equity in Government Enterprises	1,415	1,098

7. GUARANTEES

The government reporting entity has guaranteed the repayment of promissory notes, bank loans, lines of credit, mortgages and other securities. The outstanding guarantees are as follows:

	($ millions) 2001	2000
Promissory notes, bank loans, lines of credit and other	63	106
Manitoba Grow Bonds	9	9
Total guarantees outstanding	72	115

8. FINANCIAL COMMITMENTS

The government reporting entity has approved long-term financial arrangements of various entities wherein indebtedness has been issued that is not guaranteed by the government, but funding assistance is provided annually from appropriations of the Operating Fund. The government reporting entity has also made future commitments against appropriations under long-term contracts that cover the rental or acquisition of tangible capital assets. These financial commitments as at March 31 are as follows.

			($ millions) 2001	2000
Financial arrangements for completed projects:				
Public Schools			387	387
Future commitments:	Government Enterprises	Other		
Tangible capital assets, infrastructure and capital grants	186	247	433	371
Rental of tangible capital assets	40	131	171	147
Housing construction and approved mortgages	-	21	21	20
	226	399	625	538
			1,012	905

The government reporting entity has commitments which are not capital in nature, related primarily to future loans and grants and the maintenance of desktop equipment totalling $82 million (2000- $104 million). In addition, a commitment exists to provide a one-time discount on basic compulsory motor vehicle premiums written for the period April 1, 2001 to February 28, 2002 estimated at $69 million.

9. CONTINGENCIES

The government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2001 in the accounts as the final results are uncertain.

A. Canadian National Railways (CNR)

The CNR has requested a declaration that The Retail Sales Tax Act does not apply to a major part of its costs related to railway rolling stock. CNR is requesting a refund of sales tax it has paid in that respect.

B. Flood Costs

A provision has been made at March 31, 2001, for claims related to the floods that occurred in 1997 and 1999 and the disaster financial assistance in 2000. The final amount of the government's share of these costs in the future is uncertain at the date these financial statements were issued.

C. Northern Development Projects

The government may be contingently liable for any future unsettled claims associated with northern development projects.

10. PENSION LIABILITY

The government of the Province of Manitoba supports six separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan (TP), the Members of the Legislative Assembly Plan (MLAP), the University of Manitoba Pension Plan, the Healthcare Employees Pension Plan (HEPP) and the Brandon University Retirement Plan. HEPP offers retirement benefits to employees of health care facilities. The pension plans for the universities of Manitoba and Brandon and HEPP are fully funded. There is no unfunded liability reported by the actuaries of the university pension plans and HEPP.

The government is required, under the amended provisions of the Balance Budget, Debt Repayment and Taxpayer Accountability Act, to set aside funds beginning in 2000/01, to address the government's unfunded pension liability. The minimum annual contribution must be sufficient to equal the contributions made by employees and teachers hired on or after April 1, 2000. While the minimum contribution was $4 million for the year ended March 31, 2001, the government set aside $21 million in the Pension Assets trust account. These funds are separately invested and maintained in trust accounts of the government and are increased by interest earned.

Actuarial valuations for funding purposes are performed on the CSP and the TP triennially. The most recent dates for these valuations were December 31, 1998 and January 1, 1998 respectively. An actuarial valuation of the MLAP was performed as at March 31, 2000.

The actuarial valuations were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality.

Long-term inflation anticipated by the actuary is provided for information purposes. Inflation can affect the level of salaries and the level of interest rates as well as escalate the indexation rate used. In calculating future contributions, actuarial projections in respect of the rate of increases for inflation used an annual rate of increase equal to 3.0% (CSP), 3.0% (MLAP) and 2.0% (TP) for three years and 3.25% thereafter with a rate of return on investments of 7.5% (CSP), 7.0% (MLAP) and 7.0% (TP). Projected salary increases range from 2.25% to 4.5%.

During the year, certain amendments were made to the CSP. These are discussed in the subsection below. No amendments were made to the TP and the MLAP.

The components of the unfunded pension liability and expense are as follows:

	($ millions)		
	Pension Expense 2001	Pension Liability 2001	2000
Operating Fund			
Civil Service Superannuation Fund			
Unamortized Experience Gain		122	132
Pension Liability	112	1,194	1,116
Members of the Legislative Assembly			
Unamortized Experience Gain		4	-
Pension Liability	2	28	31
Teacher's Retirement Allowances Fund	157	1,687	1,807
Crown organizations	18	15	20
	289	3,050	2,906

The pension liabilities of government enterprises are disclosed in Schedule 3 with the exception of the Manitoba Liquor Control Commission which is part of the Civil Service Superannuation Fund amount noted above.

A. Civil Service Plan

The Civil Service Superannuation Act (CSSA) established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the government through the Civil Service Superannuation Fund (CSSF).

As at March 31, 2001, the CSP had approximately 37,100 (2000 - 36,800) participants including active members, retired employees and former employees with entitlements.

Certain amendments to the CSSA were made in 1992 which required that the CSSF establish and fund a separate account in an amount sufficient to cover the government's share of pension costs attributable to the 1992 amendments to the CSSA. The CSSF account maintained on behalf of the government at March 31, 2001 was $28 million (2000 - $24 million).

Effective December 15, 2000, the CSP was amended to include improved benefits. The cost of the plan amendments is fully funded from actuarially determined employee surpluses with no additional cost to the employer. The following describes the current terms of the CSP, with the previous terms indicated within brackets.

The lifetime pension calculation equals 2% of a member's best five years average yearly pensionable earnings multiplied by pensionable service, minus 0.4% (previously 0.6%) of the average Canada Pension Plan (CPP) earnings for the same period multiplied by pensionable service since January 1, 1966. The CSSA requires that employees contribute 6.0% (previously 5.1%) on pensionable earnings up to the CPP maximum earnings, and 7.0% of pensionable earnings above the maximum. 89.8% of contributions are used to fund basic benefits and 10.2% of contributions are allocated for indexing benefits. Contributions continue until the employee's retirement or other termination from service. Employee contributions for the year ended March 31, 2001 amounted to $55 million (2000 - $51 million).

Indexing benefits are not guaranteed and are paid only to the extent that the indexing adjustment account in CSSF can finance one-half of cost-of-living increases granted. The maximum annual adjustment is limited by legislation to two-thirds of the increase in the consumer price index for Canada.

The government does not make contributions to the CSSF during employees' service. By legislation, however, it is required to pay 50% of the pension disbursements made from the CSSF. For the year ended March 31, 2001, payments of $70 million (2000 - $67 million) were made to the CSSF.

SUMMARY FINANCIAL STATEMENTS

An actuarial valuation report of the government's liability to the employees included in the CSSF was completed as of December 31, 1998. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $1,194 million as at March 31, 2001 (2000 - $1,116 million). The CSSA indicates that the calculation shall provide for annual indexing on the condition that the adjustment does not result in an unfunded pension liability in the CSSF.

The report disclosed an experience gain of $152 million which will be amortized over the 15 year expected average remaining service life of the employee groups. The 2000/2001 amortization was $10 million.

B. Teachers' Plan

The Teachers' Pension Act (TPA) established a defined benefit plan to provide pension benefits to teachers who have taught in public schools in Manitoba.

As at March 31, 2001, the Teachers' Retirement Allowances Fund (TRAF) had approximately 29,000 (2000 - 28,200) participants including active members, retired teachers and former teachers with entitlements.

The lifetime pension calculation is based upon the lesser of A or B:

A) The years of service prior to July 1, 1980, multiplied by 2% and the average salary of the best 7 of the final 12 years of service and years of service after July 1, 1980, multiplied by 2% and the average salary of the best 5 of the final 12 years of service;

less

The years of service from January 1, 1966, to July 1, 1980, multiplied by .6% and the average annual salary up to the yearly maximum pensionable earnings for the same period and years of service after July 1, 1980, multiplied by .6% and the annual salary up to the yearly maximum pensionable earnings for the same period.

B) 70% of the weighted average annual salary of the member in the 7 and 5 year periods used above.

The TPA requires that teachers contribute 5.7% on pensionable earnings up to the CPP maximum earnings, and 7.3% on pensionable earnings above the maximum. 83.6% of contributions are used to fund basic benefits and 16.4% of contributions are allocated for indexing benefits. Contributions continue until the teacher's retirement or other termination from service. Teacher contributions for the year ended March 31, 2001, amounted to $46 million (2000 - $45 million).

Indexing benefits are not guaranteed and are paid only to the extent that one half of the pension adjustment does not result in an unfunded pension liability in TRAF.

The government does not make contributions to TRAF during teachers' service. By legislation, however, it is required to pay 50% of the pension disbursements and other disbursements made by TRAF as provided for in the TPA. For the year ended March 31, 2001, payments of $76 million (2000 - $69 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 1998, which determined the government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $1,687 million at March 31, 2001 (2000 - $1,607 million).

C. Members of the Legislative Assembly Plan

The pension plan for Members of the Legislative Assembly (MLAs) is established and governed by the Legislative Assembly Act (LAA). For MLAs elected prior to the dissolution of the Assembly of the 35th Legislature, the LAA provides for defined pension benefits based on years of service. For those elected after the 35th Legislature in April 1995, the LAA provides for matching contributions. As at March 31, 2001, there are 123 (2000 - 139) plan members who are entitled to receive future pension benefits in accordance with the LAA.

The calculation for defined pension benefits is equal to 3% of the average annual indemnities for the last five years served as a member or all the years served if less than five multiplied by the number of years of pensionable service up to April 1995. These entitlements are fully indexed to cost of living increases.

An actuarial valuation report of the government's liability to the MLAs included in the pension plan was completed as of March 31, 2000. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $28 million as at March 31, 2001 (2000 - $31 million). The report disclosed an experience gain of $4 million which will be amortized over the 10 year expected average remaining service life of the MLAs.

Under the matching contributions provisions, MLAs may contribute up to 7% of their remuneration toward a Registered Retirement Savings Plan (RRSP) of their choice. The government matches the member's contributions on a current basis, consequently, there is no liability for past service benefits under this component of the plan. In the event that a member withdraws money from the RRSP while an active member of the Legislative Assembly, the government's contribution would be refundable.

11. AMOUNTS HELD IN TRUST

The government held certain fiduciary trusts for investment or administration at March 31, 2001, totalling $475 million (2000 - $339 million). Such deposits are pooled with other available funds of the government for investment purposes and are accorded a market rate of interest.

The government also provides a safekeeping service for various departments, agencies, boards and commissions. In this capacity, it held custodial trust funds in the form of bonds and other securities at March 31, 2001 totalling $147 million (2000 - $164 million).

The Civil Service Superannuation Fund, University of Manitoba Pension Plans and Brandon University Retirement Plan have been established by legislation to administer various pension and insurance trust funds to which the government reporting entity contributes but over which the government reporting entity has no power of appropriation. The total assets as at December 31st are as follows:

	($ millions) 2000	1999
Civil Service Superannuation Fund	2,253	2,070
University of Manitoba Pension Plans	814	745
Brandon University Retirement Plan	79	73
	3,146	2,888

12. PROVINCIAL MUNICIPAL TAX SHARING ACT

The municipal share of individual and corporation income taxes, which is collected through the Government of Canada and remitted by the Province of Manitoba to municipalities in accordance with The Provincial-Municipal Tax Sharing Act, is not recorded as revenue or expense. This amounted to $78 million for the year ended March 31, 2001 (2000 - $71 million).

13. DEBT SERVICING

Debt servicing costs are net of cost recoveries and interest income of $1,222 million for the year ended March 31, 2001 (2000 - $1,049 million).

14. FINANCING OF LONG-TERM DEBT

In 2000/01 the Province began to finance new long-term debt of the Manitoba Lotteries Corporation directly, taking advantage of its superior borrowing power and rates, and lowering the cost of such borrowings for Manitoba.

15. COMPARATIVE FIGURES

Certain of the 2000 financial statement figures have been reclassified to be consistent with the 2001 presentation.

SPECIAL PURPOSE FINANCIAL STATEMENTS OF THE OPERATING FUND AND SPECIAL FUNDS

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Exhibit A: Auditor's Report

Exhibit B: Excerpts from "Province of Manitoba, Annual Report for the Year Ended March 31, 2001"

Audit Opinion on the Special Purpose Financial Statements of the Operating Fund and Special Funds

As mentioned previously, the Financial Statements of the Operating and Special Funds (Operating Fund) are special purpose in nature. They are intended to serve as the Government's accountability report to the Legislative Assembly on revenues raised and expenditures made as authorized by the Appropriation Act and other statutory spending authorities. These financial statements are also used to reflect the Government's compliance with the Balanced Budget, Debt Retirement and Taxpayer Accountability Act and the Financial Administration Act.

In prior years, my Auditor's Report on the Operating Fund has been prepared to draw the attention of readers to the special purpose nature of the financial statements and to caution readers against placing undue reliance on such financial statements. In the opinion paragraph of my Auditor's Report, I avoided referring to the presentation as 'fair', because these financial statements are not intended to reflect the financial results of Government as a whole. However, beginning with the 2000/01 Annual Report, the Government has adopted a presentation format that clearly discloses the Financial Statements of the Operating Funds as special purpose. The title page to the financial statements is labeled "Province of Manitoba Special Purpose Statements of Accountability for Stewardship of Central Government Operations and Balanced Budget Legislation". Each of the pages in the financial statement is headed with "Operating Fund and Special Funds – Special Purpose Financial Statements". As this clearly shows the special purpose nature of the financial statements, I did not provide additional description in my Auditor's Report of the special purpose nature of the financial statements and referred to the presentation as 'fair'.

Special Purpose Financial Statements are by their nature incomplete and often deviate significantly from generally accepted accounting principles. Hence, while required for reporting on compliance with balanced budget legislation, they are not complete for understanding the Government's management of its financial affairs.

This is the first year since 1988 that we have issued an unqualified audit opinion without additional description for the Financial Statements of the Operating Fund.

My Auditor's Report on the Special Purpose Financial Statements of the Operating Fund and Special Funds is included for reference in Exhibit A at the end of this section, along with an excerpt of the Operating Fund and Special Funds for the year ended March 31, 2001 contained in Exhibit B.

Pension Liabilities Excluded from the Operating Fund

My office issued our first audit qualification for pension liabilities not being recorded in the Financial Statements of the Operating Fund for the year ended March 31, 1990. Since then, each year we have recommended the Government amend its accounting policy for

pension costs and liabilities. In 2000/01, the unrecorded pension liability for the Operating Fund approximated $2.9 billion.

In 1999/2000, the Government issued the Summary Financial Statements and the Financial Statements of the Operating Fund in a single volume with the Financial Statements of the Operating Fund subordinate to the Summary Financial Statements. Presenting the Financial Statements of the Operating Fund in this manner reduces our concern somewhat regarding the unrecorded pension liability. As the pension liability is recorded in the Summary Statements, the impact on the entire Government Reporting Entity including the Operating Fund is readily apparent.

Furthermore, the Government committed, starting 2000/01, to set aside funds equal to the pension contributions for all civil servants and teachers hired on or after April 1, 2000. They also committed to set aside additional funds from time to time toward the pension liability with the first contribution of $21 million occurring in the year ended March 31, 2001.

While we prefer that the Government record the entire pension costs in the Operating Fund, we are encouraged by the presentation of the Financial Statements of the Operating Fund as special purpose and subordinate to the Summary Financial Statements in the Annual Report. We are also encouraged by the Government's making the initial steps in funding the pension liability.

Quarterly Reporting

Last year we raised the concern about the releasing of a fourth quarter report. The Government publishes four unaudited quarterly reports on the Operating Fund of the central government. The reports include condensed operating results to the end of the respective quarters, projections for the year, and commentary on the results. The fourth quarter report for 2000/01 was released on August 17, 2001, approximately one month prior to the release of the audited financial statements.

We do not believe that the fourth quarter report should be released prior to the publication of the audited results. This quarterly report covers the same period as the audited Financial Statements of the Operating Fund but is issued prior to the release of the audited financial statements. Audited financial statements provide the reader with a high level of assurance that information is fairly presented. The reader does not have that assurance when reviewing the unaudited quarterly reports.

Although the Government's intent is to provide timely reporting to the public, we believe that releasing a fourth quarter report within weeks of the issuance of the audited financial statements may draw attention away from the audited statements which could potentially differ from the fourth quarter statements. Readers may prematurely form inappropriate conclusions on the results of the Operating Fund for the respective fiscal year if the unaudited fourth quarter financial statements differ significantly from the audited financial statements. The commentary presently provided in the fourth quarter report is also provided in the Annual Report.

We again recommend that the Government not release a fourth quarter report on the results of the Operating Fund.

COMMENTS OF OFFICIALS

Government policy recognizes the importance of reporting on the financial status of the Government at the earliest opportunity. We believe Manitobans have a right to receive this information as soon as it is available.

Exhibit A

Office of the Provincial Auditor
500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

On the Special Purpose Operating Fund and Special Funds Financial Statements Province of Manitoba

To the Legislative Assembly of Manitoba

In accordance with Section 14 of The Provincial Auditor's Act, I have audited the special purpose statement of financial position of the Operating Fund and Special Funds of the Province of Manitoba as at March 31, 2001 and the special purpose statements of revenue and expense, accumulated deficits (surpluses) and changes in cash flow and temporary investments for the year then ended. These special purpose financial statements are the responsibility of the Government. My responsibility is to express an opinion on these special purpose financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these Special Purpose Financial Statements present fairly the financial assets and liabilities of the Operating Fund and Special Funds as at March 31, 2001 and the results of operations and the changes in cash flow and temporary investments for the year then ended in accordance with the accounting policies stated in Note 1 to the financial statements and applied, except as described in Note 4 to these financial statements, on a basis consistent with that of the preceding year.

Winnipeg, Manitoba
September 24, 2001

Jon Singleton, CA•CISA
Provincial Auditor

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2001"

(Schedules associated with these financial statements have not been replicated in this report. To review these Schedules, refer to the annual report noted above.)

Exhibit B

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF FINANCIAL POSITION

As at March 31, 2001

SCHEDULE		($ millions) 2001	2000
	ASSETS		
	Cash and Temporary Investments (Note 2)	479	291
1	Amounts Receivable	690	596
2	Loans and Advances	738	754
3	Long-Term Investments	5	5
	Deferred Charge for Health Care Facilities (Note 1A6)	236	-
		2,148	1,646
4	Trust Assets (Note 1F)	2,018	1,965
5	Tangible Capital Assets (Note 3)	380	349
	TOTAL ASSETS	4,546	3,960
	LIABILITIES		
6	Borrowings	19,866	19,521
	Less: Sinking Funds (Note 2)	(6,189)	(6,411)
	Less: Debt Incurred For and Repayable By The Manitoba Hydro-Electric Board, Manitoba Lotteries Corporation and Manitoba Telecom Services Inc (Note 12)	(5,840)	(5,592)
		7,837	7,518
	Less: Unamortized Foreign Currency Fluctuation	(220)	(215)
	Net Borrowings	7,617	7,303
7	Accounts Payable, Accrued Charges, Provisions and Deferrals	1,199	1,116
		8,816	8,419
4	Amounts Held in Trust for Investment or Administration (Note 1F)	2,018	1,965
	TOTAL LIABILITIES	10,834	10,384
	ACCUMULATED (DEFICITS) SURPLUSES		
	Operating Fund	(6,710)	(6,714)
	Fiscal Stabilization Fund	320	264
	Debt Retirement Fund	75	-
9	Other Special Funds	27	26
	ACCUMULATED DEFICIT	(6,288)	(6,424)

Information concerning the Government's Guarantees, Financial Commitments, Contingencies and Pension Liability can be found in Notes 5, 6, 7 and 8.

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF REVENUE AND EXPENSE

For the Year Ended March 31, 2001

($ millions)				($ millions)					
Operating Fund	Special Funds	Total 2000		Operating Fund Budget	Operating Fund Actual	Fiscal Stabilization Fund	Debt Retirement Fund	Other Special Funds	Total 2001
			OPERATING REVENUE (Schedule 8)						
1,957	4	1,961	Manitoba Collections	2,076	2,050	-	-	5	2,055
1,918	-	1,918	Income Taxes	2,019	2,201	-	-	-	2,201
2,074	-	2,074	Federal Transfers	1,927	2,091	-	-	-	2,091
389	-	389	Crown Corporations	392	410	-	-	-	410
-	12	12	Interest Earned	-	-	15	-	1	16
6,338	16	6,354		6,414	6,752	15	-	6	6,773
			OPERATING						
6,437	5	6,442	**EXPENSES (Schedules 8 & 10)**	6,398	6,615	-	-	5	6,620
(99)	11	(88)	**NET REVENUE (EXPENSES)**	16	137	15	-	1	153
			INTERFUND TRANSFERS						
(75)	75	-	Transfer to Debt Retirement Fund	(96)	(96)	-	96	-	-
			Transfer from						
185	(185)	-	Fiscal Stabilization Fund	90	-	-	-	-	-
110	(110)	-		(6)	(96)	-	96	-	-
			EXCESS OF REVENUE OVER EXPENSES FOR BALANCED						
11	(99)	(88)	**BUDGET LEGISLATION**	10	41	15	96	1	153
			INTERFUND TRANSFER						
			Less: Transfer to						
(11)	11	-	Fiscal Stabilization Fund	(10)	(41)	41	-	-	-
-	(88)	(88)	**NET RESULT FOR THE YEAR**	-	-	56	96	1	153

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT
OF ACCUMULATED DEFICITS (SURPLUSES)

For the Year Ended March 31, 2001

($ millions)

	Operating Fund	Fiscal Stabilization Fund	Debt Retirement Fund	Other Special Funds	Total 2001	Total 2000
Balance, Beginning of Year	8,714	(264)	-	(26)	8,424	8,495
Changes in Accounting Policy (Note 4)						
Amortization of Unrealized Foreign Exchange Fluctuations, Debt Discount and Deferred Income	21	-	-	-	21	-
Tangible Capital Assets	(21)	-	-	-	(21)	(153)
Transfer for Pension Obligation (Note 10)	-	-	21	-	21	-
Repurchase of Serial Debentures (Note 1G)	(4)	-	-	-	(4)	(6)
Net Result for the Year	-	(56)	(96)	(1)	(153)	88
Balance, End of Year	8,710	(320)	(75)	(27)	8,268	8,424

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF CHANGES IN CASH FLOW AND TEMPORARY INVESTMENTS

For the Year Ended March 31, 2001

	($ millions) 2001	2000
Cash and Temporary Investments Provided by (Used in)		
Operating Activities:		
Net Result for the year - Operating Fund	-	-
- Special Funds	153	(88)
Gain on Disposal of Tangible Capital Assets	-	(3)
Changes in non-cash items:		
Amounts Receivable	(94)	(20)
Valuation Allowance	2	48
Accounts Payable, Accrued Charges, Provisions and Deferrals	81	44
Amortization of Foreign Currency Fluctuation	96	45
Amortization of Debt Discount	12	11
Amortization of Investment Discounts and Premiums	(14)	(5)
Amortization of Tangible Capital Assets	31	25
	267	57
Investing Activities:		
Made	(883)	(1,169)
Realized	533	709
Acquisition of Tangible Capital Assets	(41)	(228)
Disposal of Tangible Capital Assets	-	3
	(371)	(685)
Financing Activities:		
Debt Issued	2,391	2,783
Debt Redeemed	(2,387)	(1,486)
Changes in Sinking Funds	288	(601)
	292	696
Changes in Cash and Temporary Investments	188	68
Cash and Temporary Investments, beginning of year	291	223
Cash and Temporary Investments, end of year	479	291

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2001

1. SIGNIFICANT ACCOUNTING POLICIES

A. General Basis of Accounting

The special purpose financial statements of the Operating Fund and Special Funds have been prepared in accordance with generally accepted accounting principles for senior governments as recommended by the Canadian Institute of Chartered Accountants (CICA), with the following exceptions:

1) Liabilities for unfunded pension benefits, while recorded in the Summary Financial Statements, have not been recorded in the Operating Fund Financial Statements.

2) The financial statements do not reflect the financial results for all of the government enterprises and Crown organizations comprising the government reporting entity. The financial operations of the latter are reflected only to the extent that their operations were financed from or contributed to the Operating Fund.

3) Material adjustments may result from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods. It is the government's practice to reflect the effects of such adjustments in the accumulated deficit. Prior year balances are not restated.

4) The process of establishing the completeness and reasonableness of the estimated historical cost of the tangible capital assets is ongoing. During the year, the government completed the development of an historical cost database for land. Reporting policies are currently being developed and information is being gathered for other expenditures which include infrastructure such as highways, bridges, and land acquired for public use as well as certain works of art and historical treasures.

5) The CICA recommends that when a government reports expenses and tangible capital assets in its financial statements, tangible capital assets should be reported as a component of accumulated deficit. In addition, the Statement of Revenue and Expense should provide a reconciliation of the expense-based surplus or deficit to the change in accumulated deficit. The government reports tangible capital assets directly on its Statement of Financial Position; they are included in total assets in calculating the accumulated deficit. The Statement of Revenue and Expense is prepared on the expense basis, but is not returned to the expenditure basis of accounting to provide a reconciliation of the change in accumulated deficit. Net Debt (Schedule 11) provides a reconciliation of the accumulated deficit to the net debt.

6) Prior to the 2000/01 fiscal year, individual health care facilities issued long-term debt in their own name to finance major capital acquisitions. In 2000/01, the Province began a program to finance such debt directly, taking advantage of its superior borrowing power and rates, and lowering the cost of health related borrowings for Manitoba. This debt is included as part of the Province's general purpose borrowings. The related asset for non-devolved health care facilities is recorded as a deferred charge and amortized over the same period as the term of the debt issue.

These accounting policies have been developed and are applied in accordance with the provisions of the Financial Administration Act, which is Chapter F55 of the Continuing Consolidation of the Statutes of Manitoba.

B. The Reporting Entity

These statements consist of the Operating Fund, the Trust Fund and Special Funds that on a combined basis reflect the transactions and balances of these funds.

The nature and purpose of the funds reflected in these financial statements is as follows:

Operating Fund - The Operating Fund is the vehicle through which the government manages and controls the operations of government departments and programs, and does not include the results of government enterprises and Crown Organizations except to the extent that they may have received funding from the Operating Fund. It is through the Operating Fund that the government reports on its stewardship of Central government operations, including measurement of its results as compared to voted appropriations, and its obligations with respect to the Balanced Budget, Debt Repayment and Taxpayer Accountability Act.

Debt Retirement Fund - This Fund was established on November 3, 1995 under the authority of The Balanced Budget, Debt Repayment and Taxpayer Accountability Act. The purpose of the Fund is to assist in the orderly repayment of debt pursuant with section 8(4) of the Act. After March 31, 2000, until the Fund is wound up, the Minister of Finance is required to deposit annually in the Fund a minimum of $96 million or such greater amount as determined by the Act.

Fiscal Stabilization Fund - This Fund was established at March 31, 1989 under the authority of The Fiscal Stabilization Fund Act. The purpose of the Fund is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the government may deposit in the Fund any part of the revenue or other financial assets received in the Operating Fund in any fiscal year and shall credit to the Fiscal Stabilization Fund any earnings from investment of the assets of the Fund. All or part of the Fund balance may be transferred to the Operating Fund in accordance with the provisions of the Act.

Section 9(a) of the Balanced Budget, Debt Repayment and Taxpayer Accountability Act requires that, if a surplus exists in a fiscal year in the Operating Fund, the Minister of Finance shall transfer an amount sufficient to bring the Fiscal Stabilization Fund to its target level as set out by The Fiscal Stabilization Fund Act or any greater amount that the Minister considers appropriate. The target level for the Fiscal Stabilization Fund is a minimum of 5% of the expense of the Operating Fund.

Mining Community Reserve - This Fund was established to assist with the welfare and employment of people who are directly affected by mine closures in Manitoba. The Lieutenant Governor in Council may transfer to this Fund each year up to 3% of the taxes collected under the Mining Tax Act.

Quarry Rehabilitation Reserve Fund - This Fund was established to assist in the rehabilitation of quarries deemed to be depleted. A levy of 10 cents per metric ton of all aggregate quarry mineral production in Manitoba is paid into the Fund each year.

Other Funds - Other funds included reflect the transactions of the Abandonment Reserve Fund, the Farm Machinery and Equipment Act Fund, the Elk Management Fund, the Land Titles Assurance Fund, Manitoba Law Reform Commission, Veterinary Science Scholarship Fund, Mining Rehabilitation Reserve and Victims Assistance Fund.

The combined financial statements of the Operating Fund and Special Funds are also included in the government's Summary Financial Statements which are presented separately.

C. Gross Accounting Concept

Revenues and expenses are recorded in gross amounts with the following exceptions.

1) The municipal share of individual and corporation income taxes, which is collected through the Government of Canada and remitted by the Province of Manitoba to municipalities in accordance with The Provincial-Municipal Tax Sharing Act, is not recorded as revenue or expense.

2) Refunds of revenue are treated as reductions of current year revenue.

3) Decreases in valuation allowances previously provided are treated as reductions to expense.

4) Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

D. Modified Accrual Accounting

The revenues and expenses of the government are recorded on an accrual basis with the following exceptions.

1) **Revenue** – All revenues are recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Government transfers are recognized as revenue in the period during which the transaction is authorized and any eligibility criteria are met. Entitlements from the Government of Canada are recorded on a cash basis except for accruals of prior year adjustments determined before June 30 each year. Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

2) **Expenses** – All expenses incurred for goods or services received are recorded on an accrual basis. Exceptions to this policy involve the acquisition of inventories acquired for the government's use that are reflected as expenses when incurred.

   Expenses include provisional amounts recorded in anticipation of future costs which are quantifiable and have been identified as obligations. Government transfers are recognized as expenses in the period during which the transaction is authorized and any eligibility criteria are met.

3) **Pension Benefits** – The annual cost recorded is based on the government's share of pensions paid to retired employees, teachers and Members of the Legislative Assembly, as well as current contributions to Registered Retirement Savings Plan accounts and tax paid trusts on behalf of MLA's and employees who are pensionable outside of the Civil Service Superannuation Fund. The government does not record its liability for the unfunded cost of pension benefits earned by employees, teachers and Members of the Legislative Assembly.

E. Liabilities and Assets

1) All borrowings are expressed in Canadian dollars and are shown net of sinking funds, unamortized debt issue costs and debt of the Province of Manitoba held as provincial investments. Foreign borrowings are converted at the exchange rate in effect at March 31 adjusted for any foreign currency contract entered for settlement after the fiscal year end. Discounts or premiums, and commissions incurred at the time of the issue of debt are amortized monthly to debt servicing expense over the term of the debt.

2) The year end translation adjustments reflecting the foreign currency fluctuation from the value at the issue date are recorded through the unamortized foreign currency fluctuation account, and amortized monthly to debt servicing expense over the remaining term of the debt. The unamortized portion of foreign currency fluctuation reflects the gains or losses on the conversion of foreign currency debt called prior to maturity using the rates in effect at the time of the call.

3) Loans, advances and long-term investments are recorded at cost less valuation allowances. A valuation allowance is provided to reduce the value of the assets to their estimated realizable value or to reflect the impact of significant concessionary terms on outstanding loans. Premiums that may arise from the early repayment of loans or advances are reflected as deferred revenue and are amortized monthly to debt servicing expense over the term of the related debt issue.

4) Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward exchange contract fixing the value has been negotiated, in which case that rate or amount is used. The year end investment translation adjustments reflecting the foreign exchange fluctuation between year ends are amortized monthly to debt servicing expense over the remaining life of the investment. Expenses and other transaction charges incurred on the purchase of investments during the year are charged to debt servicing expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

5) Tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Buildings – brick, mortar and steel	40 years
Buildings – wood frame	25 years
Vehicles	5 years
Aircraft and vessels	
- Aircraft frames	24 years
- Aircraft motors	5 years
- Vessels	24 years
Machinery, equipment and furniture	10 years
Road construction and maintenance equipment	15 years
Computer hardware and software	4 to 15 years
Leasehold improvements	Life of lease

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal where the portion of useful life remaining exceeds six months.

6) A tangible capital asset received as a donation is recorded at its fair market value with the same amount being shown as a deferred contribution which is amortized to revenue on the same basis as the asset is amortized. Where the acquisition cost of a tangible capital asset is shared with other jurisdictions under a shared cost agreement, such contributions are deducted from the cost of the related asset with any amortization calculated on the net amount.

7) During the year, the federal government created a Health Equipment and Infrastructure Fund for investment in new medical equipment. The Province's share of this fund was $37 million as at March 31, 2001. Funding from the Health Equipment and Infrastructure Fund has been treated as deferred revenue and will be brought into revenue based on actual purchases of equipment according to a defined schedule.

8) Guarantees of the government are made through specific agreements or legislation to repay promissory notes, bank loans, lines of credit, mortgages and other securities. Provision for losses on guarantees are recorded when it is likely that a loss will occur. The amount of the loss provision represents the government's best estimate of future payments less recoveries.

F. Amounts Held in Trust for Investment or Administration

These amounts primarily represent sinking funds and surplus cash of government enterprises and Crown organizations on deposit with the Minister of Finance for investment. Deposits of surplus cash funds not required to be specifically invested are pooled with other available funds of the Operating Fund for investment purposes and are accorded a market rate of interest. Sinking fund contributions made by government enterprises, Crown organizations and others in respect of their direct debt are deposited with and specifically invested by the Minister of Finance. These investments are recorded at cost.

G. Serial Debentures of School Divisions and Districts

The accumulated deficit of the Operating Fund includes amounts related to serial debentures of school divisions and districts, acquired by the government in prior years. The government is primarily responsible for funding the redemption of these debentures, accordingly these amounts are not reflected as assets. As the funding for annual redemptions flow from the appropriations of the government, to the school divisions and districts, and then back to the Province, the accumulated deficit of the operating fund is reduced by the amount of such redemptions.

H. Use of Estimates

In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. These estimates have been based on management's best judgements applied to available information.

2. CASH AND TEMPORARY INVESTMENTS AND SINKING FUNDS

Temporary investments and sinking funds are recorded at the lower of cost and market value. As at March 31, 2001, the cost of cash and temporary investments was $479 million with a market value $482 million. Sinking funds had a cost of $6,189 million and a market value of $6,647 million at March 31, 2001.

3. TANGIBLE CAPITAL ASSETS

($ millions)

	2001			2000
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land – see note 1.A.4	19	0	19	n/a
Buildings – brick, mortar and steel	238	139	99	101
Buildings – wood frame	28	24	4	4
Vehicles	2	2	0	0
Aircraft and vessels	44	23	21	22
Machinery, equipment and furniture	15	8	7	7
Road construction and maintenance equipment	51	35	16	14
Computer hardware and software	174	43	131	132
Assets under construction	81	0	81	69
Leasehold Improvements	2	0	2	0
	654	274	380	349

4. CHANGES IN ACCOUNTING POLICY

A. Amortization of Unrealized Foreign Currency Fluctuations, Debt Discount and Deferred Income

Effective April 1, 2000, the government made an accounting policy change to the methodology of amortizing unrealized foreign currency fluctuations, debt discount and deferred income. This new methodology allocates amortization based on the number of months to maturity, from the date of inception to the date of maturity. The effect of this accounting policy change resulted in an increase to the accumulated deficit of $21 million, and a similar increase to the outstanding liabilities. The impact of this accounting policy change on the current year is a $19 million increase in expenses.

B. Tangible Capital Assets

Effective April 1, 1999, the government made an accounting policy change to introduce the capitalization of tangible capital assets. Commencing April 1, 2000, the government expanded the scope of the policy change to include land. This resulted in an increase in net tangible capital assets of $19 million and a corresponding decrease in the Operating Fund accumulated deficit of the same amount. During the current year, additional assets valued at $2.0 million were identified and recorded.

5. GUARANTEES

The government has guaranteed the repayment of debt issued by government enterprises and Crown organizations, promissory notes, bank loans, lines of credit, mortgages and other securities. The outstanding guarantees are as follows:

	($ millions)	
	2001	2000
Promissory notes, bank loans, lines of credit and other	19	78
Debt issued by government enterprises and Crown organizations	407	412
Manitoba Grow Bonds and other	9	9
	435	499
Less: Sinking funds	25	180
Total guarantees outstanding	410	319

6. FINANCIAL COMMITMENTS

The government has approved long-term financial arrangements of various entities wherein indebtedness has been issued that is not guaranteed by the government, but funding assistance is provided annually from appropriations of the Operating Fund. The government has also made future commitments against appropriations under long-term contracts that cover the rental of tangible capital assets. These financial commitments as at March 31 are as follows:

	($ millions)	
	2001	2000
Financial arrangements for completed projects:		
Hospitals and personal care homes	575	501
Public schools	387	367
Manitoba Housing and Renewal Corporation	198	201
Brandon University	2	2
	1,162	1,071
Future commitments:		
Infrastructure and capital grants	111	86
Rental of tangible capital assets	101	76
	212	162
	1,374	1,233

In addition to the approved outstanding debt for hospitals and personal care homes, lines of credit up to $126 million (2000 - $181 million) have been approved to finance capital projects for hospitals and personal care homes currently in process. On completion of these projects, the borrowings will be converted to other financing arrangements.

7. CONTINGENCIES

The government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2001 in the accounts as the final results are uncertain.

A. Canadian National Railways (CNR)

The CNR has requested a declaration that The Retail Sales Tax Act does not apply to a major part of its costs related to railway rolling stock. CNR is requesting a refund of sales tax it has paid in that respect.

B. Flood Costs

A provision has been made at March 31, 2001 for claims related to the floods that occurred in 1997 and 1999 and the disaster financial assistance in 2000. The final amount of the government's share of these costs in the future is uncertain at the date these financial statements were issued.

C. Northern Development Projects - Water Rental Rate Agreement

Effective April 1, 2001, the government terminated an agreement under which it fixed water power rates in return for Manitoba Hydro assuming the Province's obligations for northern development projects. The termination of this agreement may result in the government being contingently liable for any future unsettled claims.

8. PENSION LIABILITY

The government of the Province of Manitoba supports three separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan (TP) and the Members of the Legislative Assembly Plan (MLAP).

The government is required, under the amended provisions of the Balance Budget, Debt Repayment and Taxpayer Accountability Act, to set aside funds beginning in 2000/01, to address the government's unfunded pension liability. The minimum annual contribution must be sufficient to equal the contributions made by employees and teachers hired on or after April 1, 2000. While the minimum contribution was $4 million for the year ended March 31, 2001, the government set aside $21 million in the Pension Assets trust account. These funds are separately invested and maintained in trust accounts of the government and are increased by interest earned.

Actuarial valuations for funding purposes are performed on the CSP and the TP triennially. The most recent dates for these valuations were December 31, 1998, and January 1, 1998, respectively. An actuarial valuation of the MLAP was performed as at March 31, 2000.

The actuarial valuations were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality.

Long-term inflation anticipated by the actuary is provided for information purposes. Inflation can affect the level of salaries and the level of interest rates as well as escalate the indexation rate used. In calculating future contributions, actuarial projections in respect of the rate of increases for inflation used an annual rate of increase equal to 3.0% (CSP), 3.0% (MLAP) and 2.0% (TP) for three years and 3.25% thereafter with a rate of return on investments of 7.5% (CSP),7.0% (MLAP) and 7.0% (TP). Projected salary increases range from 2.25% to 4.5%.

During the year, certain amendments were made to the CSP. These are discussed in the subsection below. No amendments were made to the TP and the MLAP.

A. Civil Service Plan

The Civil Service Superannuation Act (CSSA) established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the government through the Civil Service Superannuation Fund (CSSF).

As at March 31, 2001, the CSP had approximately 25,100 (2000 - 24,900) participants including active members, retired employees and former employees with entitlements.

Certain amendments to the CSSA were made in 1992 which required that the CSSF establish and fund a separate account in an amount sufficient to cover the government's share of pension costs attributable to the 1992 amendments to the CSSA. The CSSF account maintained on behalf of the government at March 31, 2001, was $28 million (2000 - $24 million).

Effective December 15, 2000, the CSP was amended to include improved benefits. The cost of the plan amendments is fully funded from actuarially determined employee surpluses with no additional cost to the employer. The following describes the current terms of the CSP, with the previous terms indicated within brackets.

The lifetime pension calculation equals 2% of a member's best five years average yearly pensionable earnings multiplied by pensionable service, minus 0.4% (previously 0.6%) of the average Canada Pension Plan (CPP) earnings for the same period multiplied by pensionable service since January 1, 1966.

The CSSA requires that employees contribute 6.0% (previously 5.1%) on pensionable earnings up to the CPP maximum earnings, and 7.0% of pensionable earnings above the maximum. 89.8% of contributions are used to fund basic benefits and 10.2% of contributions are allocated for indexing benefits. Contributions continue until the employee's retirement or other termination from service. Employee contributions for the year ended March 31, 2001 amounted to $35 million (2000 - $32 million).

Indexing benefits are not guaranteed and are paid only to the extent that the indexing adjustment account in CSSF can finance one-half of cost-of-living increases granted. The maximum annual adjustment is limited by legislation to two-thirds of the increase in the consumer price index for Canada.

The government does not make contributions to the CSSF during employees' service. By legislation, however, it is required to pay 50% of the pension disbursements made from the CSSF. For the year ended March 31, 2001, payments of $51 million (2000 - $48 million) were made to the CSSF.

An actuarial valuation report of the government's liability to the employees included in the CSSF was completed as of December 31, 1998. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $1,194 million as at March 31, 2001 (2000 - $1,116 million). The CSSA indicates that the calculation shall provide for annual indexing on the condition that the adjustment does not result in an unfunded pension liability in the CSSF.

B. Teachers' Plan

The Teachers' Pension Act (TPA) established a defined benefit plan to provide pension benefits to teachers who have taught in public schools in Manitoba.

As at March 31, 2001, the Teachers' Retirement Allowances Fund (TRAF) had approximately 29,000 (2000 - 28,200) participants including active members, retired teachers and former teachers with entitlements.

The lifetime pension calculation is based upon the lesser of A or B:

A) The years of service prior to July 1, 1980, multiplied by 2% and the average salary of the best 7 of the final 12 years of service and years of service after July 1, 1980, multiplied by 2% and the average salary of the best 5 of the final 12 years of service;

less

The years of service from January 1, 1966, to July 1, 1980, multiplied by .6% and the average annual salary up to the yearly maximum pensionable earnings for the same period and years of service after July 1, 1980, multiplied by .6% and the annual salary up to the yearly maximum pensionable earnings for the same period.

B) 70% of the weighted average annual salary of the member in the 7 and 5 year periods used above.

The TPA requires that teachers contribute 5.7% on pensionable earnings up to the CPP maximum earnings, and 7.3% on pensionable earnings above the maximum. 83.6% of contributions are used to fund basic benefits and 16.4% of contributions are allocated for indexing benefits. Contributions continue until the teacher's retirement or other termination from service. Teacher contributions for the year ended March 31, 2001, amounted to $46 million (2000 - $45 million).

Indexing benefits are not guaranteed and are paid only to the extent that one half of the pension adjustment does not result in an unfunded pension liability in TRAF.

The government does not make contributions to TRAF during teachers' service. By legislation, however, it is required to pay 50% of the pension disbursements and other disbursements made by TRAF as provided for in the TPA. For the year ended March 31, 2001, payments of $76 million (2000 - $69 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 1998, which determined the government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $1,687 million at March 31, 2001 (2000 - $1,607 million).

C. Members of the Legislative Assembly Plan

The pension plan for Members of the Legislative Assembly (MLA's) is established and governed by the Legislative Assembly Act (LAA). For MLA's elected prior to the dissolution of the Assembly of the 35th Legislature, the LAA provides for defined pension benefits based on years of service. For those elected after the 35th Legislature in April 1995, the LAA provides for matching contributions. As at March 31, 2001, there are 123 (2000 – 139) plan members who are entitled to receive future pension benefits in accordance with the LAA.

The calculation for defined pension benefits is equal to 3% of the average annual indemnities for the last five years served as a member or all the years served if less than five multiplied by the number of years of pensionable service up to April 1995. These entitlements are fully indexed to cost of living increases.

An actuarial valuation report of the government's liability to the MLA's included in the pension plan was completed as of March 31, 2000. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $28 million as at March 31, 2001 (2000- $31 million).

Under the matching contributions provisions, MLA's may contribute up to 7% of their remuneration toward a Registered Retirement Savings Plan (RRSP) of their choice. The government matches the member's contributions on a current basis, consequently, there is no liability for past service benefits under this component of the plan. In the event that a member withdraws money from the RRSP while an active member of the Legislative Assembly, the government's contribution would be refundable.

9. EXPENSES IN EXCESS OF LEGISLATIVE AUTHORITY

The following voted appropriations were over expended as a result of adjustments after March 31, 2001.

	($ millions)
Education, Training and Youth	
Property Tax Credits	4
Enabling Appropriations	
Internal Reform, Workforce Adjustment and General Salary Increases	23

10. TRANSFER FOR DEBT RETIREMENT AND PENSION OBLIGATIONS

The government transferred $96 million to the Debt Retirement Fund from the Operating Fund for the specific purpose of reducing general purpose debt and pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Fund. The transfer was made in accordance with subsection 8 (4) of The Balanced Budget, Debt Repayment and Taxpayer Accountability Act. The government transferred $21 million from the Debt Retirement Fund for the specific purpose of reducing pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Fund. This transfer was made in accordance with subsection 8 (6) of the Balanced Budget, Debt Repayment and Taxpayer Accountability Act.

11. BALANCED BUDGET LEGISLATION

Section 6 of The Balanced Budget, Debt Repayment and Taxpayer Accountability Act requires the Minister of Finance to report on compliance with the Act in the audited financial statements of the Operating Fund for each fiscal year. The Statement of Revenue and Expense shows a surplus of $41 in the Operating Fund. The government is therefore in compliance with the Act.

12. FINANCING OF LONG-TERM DEBT

In 2000/01 the Province began to finance new long-term debt of the Manitoba Lotteries Corporation directly, taking advantage of its superior borrowing power and rates, and lowering the cost of such borrowings for Manitoba.

13. COMPARATIVE FIGURES

Certain of the 2000 financial statement figures have been reclassified to be consistent with the 2001 presentation.

UPDATE OF THE STATUS OF THE REFORM OF THE PUBLIC ACCOUNTS COMMITTEE

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Exhibit A: Guidelines for an Effective Public Accounts Committee

Reform of the Public Accounts Committee

The Public Accounts Committee (PAC) in Manitoba is arguably the least effective PAC in Canada. This is significant because of the important role the PAC should play in holding the government of the day accountable.

In our Report to the Legislative Assembly on the public accounts for the year ended March 31, 1997, we stated:

> *"An effective PAC is a key part of the accountability cycle. By developing practical and useful recommendations to eliminate waste and mismanagement and by promoting these recommendations with the Legislative Assembly, the PAC can significantly influence and support effective governance for Manitoba citizens."*

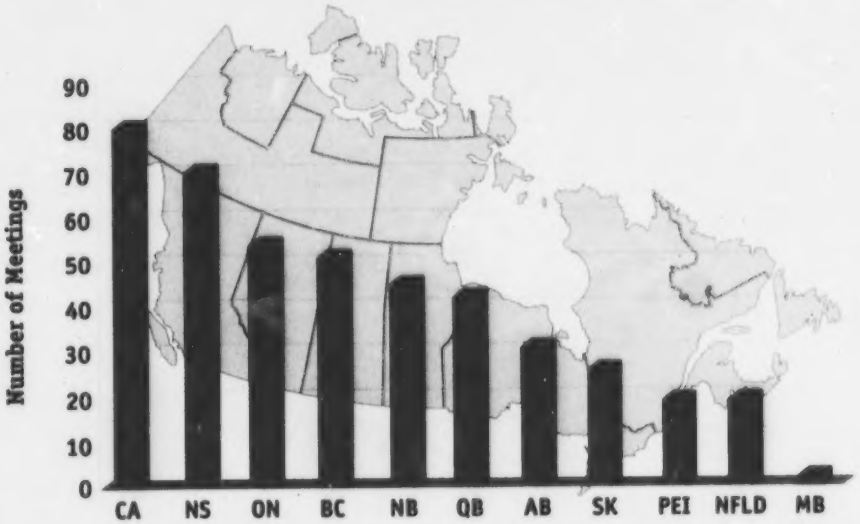
In that report, we set out some of the key recommendations of the Canadian Council of Public Accounts Committees (CCPAC) that we believe would be useful for Manitoba to adopt. These are set out in Exhibit A. We recommended:

> *"...that the Legislative Assembly have the Public Accounts Committee review the CCPAC guidelines and prepare a report to the Assembly with recommended changes in the mandate, powers and procedures of the committee."*

In our Report to the Legislative Assembly on the public accounts for the year ended March 31, 1998, we followed up on the previous year's recommendation. We reported that no progress had been made.

We have reviewed the activity of the PAC since the 1998 report was issued. The PAC has met twice since we issued the 1998 report for a total of four hours. The chart below compares the level of activity of the Manitoba PAC to others in the country from November 1, 1998 to June 30, 2001.

Comparison of Number of Public Accounts Committee Meetings by Jurisdiction (November 1, 1998 to June 30, 2001)



The chart clearly indicates that the Manitoba PAC is significantly out of step with the rest of the country. It is also important to note that every other PAC in Canada adopted a significant number of the CCPAC guidelines many years ago.

In the two meetings held since we issued our March 31, 1998 report, the PAC has discussed our recommendations. At its July 6, 1999 meeting, the PAC passed the following motion:

> *"THAT we establish a subcommittee of this committee for the purpose of bringing forward recommendations on ways in which we can reform the committee and that the said subcommittee report back to the Public Accounts Committee by the end of the year 1999."*

The subcommittee was not appointed prior to the calling of a general election. Subsequently, the new PAC reconsidered our recommendations and adopted the following motion on July 21, 2000:

> *"THAT the Provincial Auditor's recommendation for change to the procedure and role of the Public Accounts Committee be referred to the Rules Committee and that the Public Accounts Committee be convened to discuss the Provincial Auditor's recommendations and to make comment on them prior to the Rules Committee dealing with the Provincial Auditor's recommendations."*

The meeting of the PAC called for in this motion had not been held as of October 31, 2001 (approximately 15 months). In the intervening time, our staff worked with Chair and Vice-Chair on a submission to the PAC with respect to the role and procedures of the PAC. This document has not yet been provided to the PAC.

It is more than a little disappointing that, in the more than three years since we first made our recommendations:

- relatively straightforward changes in the role and procedures of the PAC have not been made;
- the PAC continues to meet infrequently; and
- the PAC has yet to make a single recommendation to the Legislative Assembly for the improvement of accountability of the Government to the citizens of Manitoba.

We can only reiterate our belief that the PAC is an important aspect of our democratic processes. An ineffective PAC does not serve the citizens of Manitoba well. We strongly encourage the Legislative Assembly to bring about needed reforms in short order.

GUIDELINES FOR AN EFFECTIVE PUBLIC ACCOUNTS COMMITTEE

Exhibit A

- Operate in a non-partisan manner.
- Adopt a written mandate and statement of operating principles.
- Have the right to investigate all past, current and committed expenditures of government and recipients of public monies.
- Have and use the power to summon persons, and examine papers and records.
- Be concerned with how government policy is administered and with value-for-money in the implementation of government policy, rather than with government policy itself.
- Have the right to request the Provincial Auditor to conduct specific reviews.
- Have the right to review proposed changes to The Provincial Auditor's Act as well as changes to its own mandate.
- Scrutinize the operations of the Provincial Auditor.
- Have the right to call witnesses and take testimony under oath.
- Make recommendations to the Legislative Assembly.
- Exclude Cabinet Ministers from committee membership.

REVIEW OF SAP R/3 UPGRADE TO VERSION 4.6b

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Background

The Government of Manitoba (Government) uses SAP R/3 (SAP) as an enterprise solution for its accounting, logistics and human resource processes. SAP is a fully integrated computerized accounting and management information system and functions across multiple departments, agencies, commissions and sites throughout Manitoba. SAP allows for the sharing of common data, so transactions initiated by one business area may have a direct impact on other business areas. The broad and detailed functionality that gives the system its flexibility often results in complex control and security requirements.

My office identified that the complexity of the controls and security requirements of SAP create a new set of challenges to be addressed, as we need to rely on SAP in the audit of Public Accounts. To this end, we performed a review of the controls over SAP in the initial implementation of SAP version 3.1h, and we issued a report on the results of our review. A summary of this report was included in the March 31, 1999 Public Accounts Report to the Legislature.

The Government upgraded from SAP version 3.1h to version 4.6b in November 2000. We reviewed the upgrade to determine if there were any changes due to the upgrade that would affect our reliance on the controls over SAP in our audit of Public Accounts. This report summarizes the results of our review.

Objective, Approach and Scope

Our objective was to gain reasonable assurance that the upgrade was performed in a controlled fashion and changes to the Government's control framework resulting from the upgrade were identified, reviewed and assessed.

Specifically, we addressed:

- SAP Application Level Security

  The focus of this portion of the project was to review SAP 4.6b authorization security and change controls. We assessed the design, build and administration of security over the SAP application and assessed the security over the process of managing changes.

- Process Integrity

  Process integrity relates to controls over the procurement, accounting and human resource business processes. The business processes are captured in various modules in SAP. The process integrity portion of our review involved reviewing controls over the logistics, accounting and human resource business processes affected by the SAP version 4.6b upgrade. The review included the purchasing, accounts payable, general ledger, organizational management, personnel administration, recruitment, asset accounting, funds management, payroll, internal orders, cost centre accounting, manager's desktop, time management and bank accounting components within SAP.

- Data Conversion

  We reviewed the integrity of the conversion process from SAP version 3.1h to version 4.6b.

Due to the highly specialized and complex nature of SAP, we contracted with specialists in SAP auditing to assist us in conducting our review.

We conducted our review from February to May 2001.

Summary Conclusion

The controls over SAP in the Government and the upgrade procedures were generally very good. However, in an application as large as SAP there is always room for improvement.

The Government has made progress in adopting the recommendations we made in our review of the initial SAP version 3.1h implementation. However, many of our initial recommendations remain unresolved and we have identified new areas for improvement in our review of the upgrade not present or apparent in the initial implementation review.

We will provide separate reports to the Comptroller's Office, Enterprise Systems Management (ESM) and departments detailing the recommendations we made on the review of the upgrade. ESM, under the direction of the Comptroller, provides the ongoing technical support as well as modifications and refinements to SAP as required.

The three recommended areas considered the most critical in the initial implementation review still require addressing, although some progress has been made in resolving our concerns. We still consider these three areas the most critical.

1. **Access to SAP by Departmental Managers**

   In our review of the initial implementation of SAP, we noted that departmental managers did not have access to SAP. The Government focused their efforts on giving the transaction processors access effective April 1, 1999. They planned to provide departmental managers with access to SAP by September 1, 1999 and delegated management responsibilities to the administrative staff in the interim. However, departmental managers still did not have access to SAP by the end of our implementation review in October 1999.

   During our review of the upgrade, we noted that departmental managers generally still do not have access to SAP. Many of the managers' functions are assigned to administrative staff members in SAP. The delegation of management tasks to administrative staff may result in a loss of segregation of duties and exposure to fraud. One of the major ways of ensuring the integrity of processing in SAP is to segregate incompatible functions between more than one user. Incompatible business functions can be thought of as of a combination of activities that provide a single user with the opportunity to commit an error or fraud without detection. In information technology, this is most commonly viewed as the ability to add, delete or change data without the involvement of a second user.

One of the most significant management functions assigned to administrative staff is the approval of purchases. The purchasing approval levels delegated to senior managers by Ministers of the Legislative Assembly may not be appropriately represented in SAP. We also noted that the differences from the delegated purchasing authority levels to the approvals levels set in SAP may not be properly documented. We found that departmental personnel are unclear on their responsibilities for maintaining the delegation of purchasing authorities in and out of SAP.

Although the departments are required to have the manager's approval of the purchases documented on paper prior to the administrative staff entering the approval into SAP, the opportunity exists for the administrative staff to incorrectly or fraudulently approve a transaction and not be detected on a timely basis. It is management's responsibility to monitor the processing but this is made difficult if they do not have access to SAP.

Finally, SAP is a management information system. It can provide extensive information to the managers for their use in making informed decisions. If the managers do not have access, use of SAP will not be optimized.

During our review, we noted that ESM was piloting a project called Manager's Desktop. This is a reporting tool that is designed to provide managers with immediate access to SAP human resources and financial information. This is a good first step in providing management information on-line to managers, but further improvements are still necessary.

We recommend that departmental managers be provided with access to SAP and that the management tasks be removed from administrative staff as soon as possible.

COMMENTS OF OFFICIALS

Managerial access to SAP is being provided through the Manager's Desktop (MDP) Initiative which is being rolled out to departmental managers as expeditiously as possible. Once this rollout is complete, attention will be given to moving managerial tasks away from administrative staff and back to departmental managers where they appropriately belong.

We recommend that the Comptroller's Office reinforce the importance with departments of ensuring the delegated authorities are properly represented in SAP or that differences are approved and documented.

COMMENTS OF OFFICIALS

We are working to produce reports from SAP for Executive Financial Officers in departments which will allow them to quickly assess the SAP authority levels and compare them to the delegation of authority that takes place outside of SAP to ensure compatibility and comparability. Differences can then either be fixed, or rationalized and documented. This will be communicated to departments as soon as the report has been tested and is available for distribution.

We recommend that ESM prepare lists of incompatible functions by department. Each department should be provided with their specific list for review and approval. This process should be updated on a regular basis to ensure that departments are aware of staff members with incompatible functions and that departments have controls to compensate for the increased exposure to risk.

COMMENTS OF OFFICIALS

The incompatibility of functions is under review as there is concern as to the propriety of the current categorizations. We are also in the process of developing a security report for departments which will list users and their assigned SAP roles. This report, combined with an updated matrix of incompatible functions will be sent to Executive Financial Officers for review and comment at the earliest opportunity.

2. Critical Standard Reports

In our review of the initial implementation of SAP, we noted that the production and review of critical standard reports had not been established for some processes. Reports are essential for monitoring the operations and security of the system. Without appropriate reports prepared and monitored, incomplete, inaccurate or unauthorized data may not be detected on a timely basis.

The Comptroller's Office and ESM have made progress in establishing procedures for the preparation and review of critical standard reports. However, there are still some reports we consider desirable that are not being produced or for which procedures have not been established and communicated to departments regarding their preparation and use.

We recommend that procedures for the preparation and use of critical standard reports should be established and communicated to the departments.

COMMENTS OF OFFICIALS

Critical standards reports were identified during the development of the Managers Desktop Initiative. All managers are being trained in the purpose and use of these reports. At the date of this report, over 200 managers have already attended such training courses. Workshop and training sessions were developed in conjunction with departments and central agencies to ensure relevancy and effectiveness. Central groups such as Treasury Board, Internal Audit, Civil Service Commission, as well as departments, have been privy to targeted report interventions throughout the year for their specific purposes. As well, a financial reporting class is now part of the regular course offerings from ESM. As part of the Government's Comptrollership Framework, Executive Financial Officers, along with the Provincial Comptroller, continue to identify Government information standards, reporting gaps and required processes to ensure that monitoring of information in SAP is in compliance with legislation and Government policy.

3. Business Continuity Plan

There is no comprehensive business continuity plan in place by the Government covering the SAP application. Business continuity plans are necessary to restore critical business activities in the event of a disaster. They specify how alternate facilities and SAP processing capabilities will be provided to continue and restore operations within a planned timeframe. Without a business continuity plan, users may be unable to access SAP.

We recommend that a well thought-out and effective business continuity plan should be developed and tested to minimize the risk of disruptions caused by unforeseen events.

COMMENTS OF OFFICIALS

We are establishing an interim facility to house an alternative computing environment for the SAP system. The presence of this Disaster Recovery site will minimize disruption of access to the SAP system in the event of an unforeseen event or disaster at the primary site.

CROWN ORGANIZATIONS AND GOVERNMENT ENTERPRISES

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Exhibit A: Summary of Who Conducts the Audits

Who Conducts the Audits

The Provincial Auditor's Office audits many of the crown organizations and government enterprises included in the Government Reporting Entity, and many others are audited by private sector auditors (PSAs) appointed by the Government. Consequently, my staff place reliance on the audit work and opinions of the private sector auditors in forming my audit opinion on the Summary Financial Statements. We obtain written representations from the PSAs regarding their independence and compliance with generally accepted auditing standards. We also perform additional auditing procedures, as we consider necessary, to fulfil our broader reporting responsibilities to the Legislative Assembly.

The following Exhibit lists those government entities audited by the Office of the Provincial Auditor and those audited by PSAs.

Exhibit A

SUMMARY OF WHO CONDUCTS THE AUDITS

(PAO - Provincial Auditor's Office; PSA - private sector auditors)

	Audit Conducted By	
	PAO	PSA
Government Enterprises		
Leaf Rapids Town Properties Ltd.	X	
Manitoba Hazardous Waste Management Corporation		X
Manitoba Hydro-Electric Board		X
Manitoba Liquor Control Commission		X
Manitoba Lotteries Corporation		X
Manitoba Product Stewardship Corporation		X
Manitoba Public Insurance Corporation		X
Workers Compensation Board		X
Crown Organizations		
Addictions Foundation of Manitoba		X
Assiniboine Community College		X
Board of Administration under the Embalmers and Funeral Directors Act	X	
Brandon University	X	
CancerCare Manitoba		X
Centre Culturel Franco-Manitobain	X	
Child and Family Services of Central Manitoba		X
Child and Family Services of Western Manitoba		X
Communities Economic Development Fund		X
Cooperative Loans and Loans Guarantee Board	X	
Cooperative Promotion Board	X	
Council on Post-Secondary Education	X	
Crown Corporations Council		X
Deer Lodge Centre Inc.		X
Economic Innovation and Technology Council	X	
Health Information Services of Manitoba (HISM) Corporation		X
Horse Racing Commission	X	
Insurance Council of Manitoba		X
Keewatin Community College		X
Legal Aid Services Society of Manitoba	X	
Manitoba Adolescent Treatment Centre Inc.		X
Manitoba Agricultural Credit Corporation	X	
Manitoba Arts Council		X
Manitoba Boxing Commission		X
Manitoba Centennial Centre Corporation	X	
Manitoba Community Services Council Inc.		X
Manitoba Crop Insurance Corporation	X	
Manitoba Development Corporation		X
Manitoba Film and Sound Development Corporation		X
Manitoba Foundation	X	
Manitoba Gaming Control Commission		X

	Audit Conducted By	
	PAO	PSA
Manitoba Habitat Heritage Corporation	X	
Manitoba Health Research Council		X
Manitoba Health Services Insurance Plan	X	
Manitoba Hospital Capital Financing Authority	X	
Manitoba Housing and Renewal Corporation	X	
Manitoba Trade and Investment Corporation	X	
Manitoba Water Services Board	X	
Public Schools Finance Board	X	
Red River College		X
Rehabilitation Centre for Children, Inc.		X
Special Operating Agencies Financing Authority	X	
University of Manitoba	X	
Venture Manitoba Tours Ltd.		X
Winnipeg Child and Family Services		X
Special Operating Agencies		
Civil Legal Services		X
Companies Office		X
Fire Commissioner, Office of the		X
Fleet Vehicles Agency		X
Food Development Centre		X
Industrial Technology Centre		X
Land Management Services		X
Mail Management Agency		X
Manitoba Education, Research and Learning Information Networks (MERLIN)		X
Manitoba Securities Commission		X
Manitoba Text Book Bureau	X	
Materials Distribution Agency		X
Organization and Staff Development	X	
Pineland Forest Nursery		X
The Property Registry		X
The Public Trustee	X	
Vital Statistics Agency		X
Regional Health Authorities		
Brandon Regional Health Authority Inc.		X
Burntwood Regional Health Authority Inc.		X
Churchill RHA Inc.		X
Interlake Regional Health Authority		X
Marquette Regional Health Authority Inc.		X
NOR-MAN Regional Health Authority Inc.		X
North Eastman Health Authority Inc.		X
Parkland Regional Health Authority Inc.		X
Regional Health Authority - Central Manitoba Inc.		X
South Eastman Regional/Sante Sud-Est Inc.		X
South Westman Regional Health Authority Inc.		X
Winnipeg Regional Health Authority Inc.	X	

Excerpt: The Provincial Auditor's Act

Examination of accounts

12(1) The Provincial Auditor is the auditor of the accounts of the government including those relating to the Consolidated Fund and as such shall make all examinations and inquiries he considers necessary to enable him to report as required by this Act.

Audit of other public moneys

12(2) Unless some other provision is made pursuant to a statute in that behalf, the Provincial Auditor is responsible for the examination, checking and auditing, of the receipt and payment of public moneys that are not part of the Consolidated Fund.

Reliance on report of other auditors

17(1) ...In order to fulfil his responsibilities as the auditor of the accounts of the government, the Provincial Auditor may rely on the report of the duly appointed auditor of any agency of the government or of any subsidiary of an agency of the government or of any recipient of public moneys.

Provincial Auditor may request information

17(2) The Provincial Auditor may request an agency of the government to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents, and auditors or those of any of its subsidiaries as are, in the opinion of the Provincial Auditor, necessary to enable him to fulfil his responsibilities as auditor of the accounts of the government.

Copies of this report may be obtained by contacting:

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PRINTED BY
Coronet/Fahlke Printers Ltd.

COVER DESIGN
Gator Designs